NEWALTA

STEADY. PROVEN.

2008 ANNUAL REPORT

Canada's leading industrial waste management and environmental services company.

TSX: NAL

STEADY

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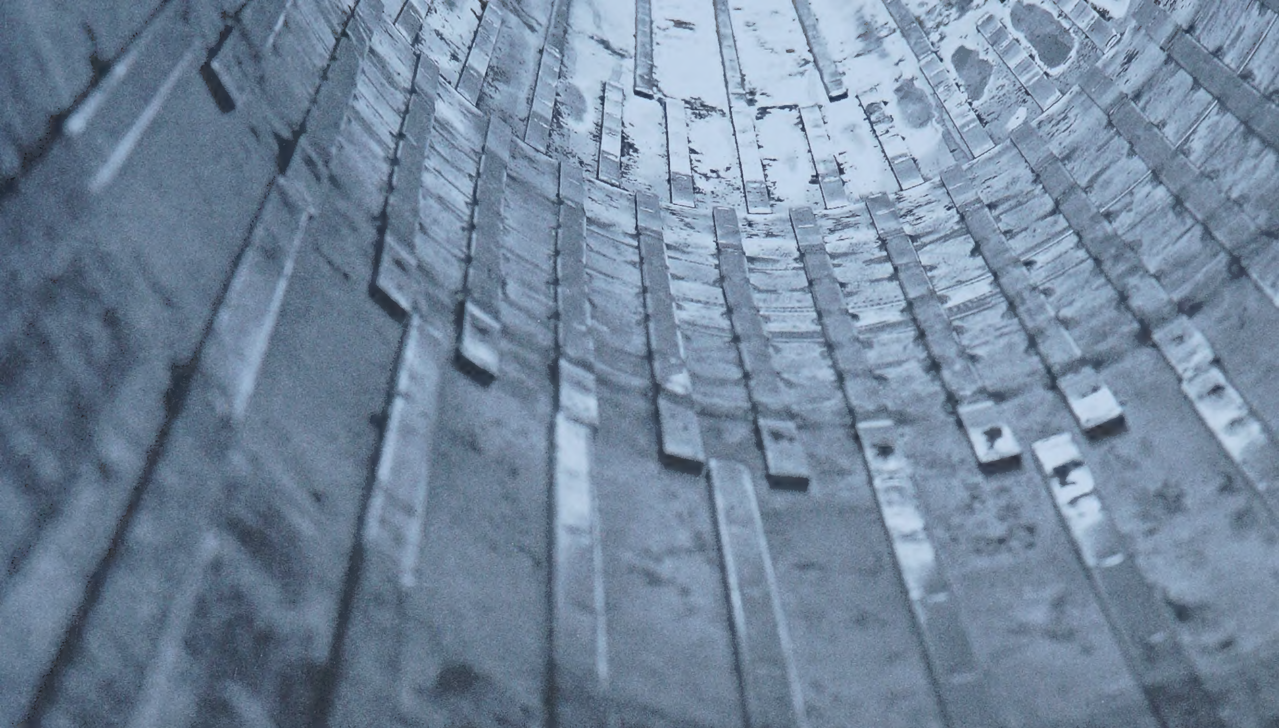


PERFORMANCE.

Performance in 2008 was strong, despite deteriorating market conditions and slumping commodity prices in the second half. Revenue was up 19 percent and EBITDA was up $29.5 million, or 31 percent, compared to 2007. EBITDA per share increased to $3.00. The volume of crude oil that we recovered to our account from waste increased 11 percent and the average price that we realized was up from $62.20 per barrel to $86.20 per barrel. As a result of the volume and price improvement, the revenue generated from crude oil sales was up $12.5 million. Waste volumes were higher overall in 2008 and drill site equipment utilization improved from 27 percent in 2007 to 40 percent in 2008. Investments made in 2007, including the acquisition of the lead-acid battery recycling operation in Ville Ste-Catherine, Québec ("VSC"), contributed solid bottom-line results for the year. In 2008, we invested $104 million to expand services, to diversify the business, and to improve profitability. These investments will partially offset market weakness in 2009.

Our markets have changed dramatically over the past six months with declining commodity prices and deteriorating market conditions across all Canadian sectors. We have taken prudent and reponsible steps to manage expenses, improve profitability and productivity, strengthen our balance sheet, restrict capital expenditures and review all of our business practices, as well as our organization. Challenging market conditions provide opportunities for innovation and we are directing our resources to work with key customers across Canada to provide more cost-effective and environmentally superior solutions to their waste management challenges. We will re-invigorate our business and position Newalta to capitalize on opportunities as markets recover in the future.

A 31% increase in EBITDA

PROVEN

($000s except per share/unit data)	2008	2007	Year ended December 31, % Increase (Decrease)
Revenue	**597,035**	499,864	19
Net earnings	**58,882**	61,189	(4)
per share/unit ($) - basic	**1.40**	1.52	(8)
per share/unit ($) - diluted	**1.40**	1.51	(7)
EBITDA(1)	**125,753**	96,228	31
per share/unit ($)	**3.00**	2.39	26
Funds from operations(1)	**95,887**	79,970	20
per share/unit ($)	**2.29**	1.98	16
Maintenance capital expenditures(1)	**20,762**	17,235	20
Distributions declared	**93,180**	90,117	3
per share/unit ($)	**2.22**	2.22	-
Cash distributed(1)	**82,093**	75,356	9
Growth and acquisition capital expenditures	**104,440**	193,046	(46)
Weighted average share/units outstanding	**41,935**	40,342	4
Share/units outstanding, December 31,	**42,400**	41,417	2

(1) These financial measures do not have any standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and are therefore unlikely to be comparable to similar measures presented by other issuers. Non-GAAP financial measures are identified and defined in the attached Management's Discussion and Analysis.


RESULTS.

President's Message

ALAN P. CADOTTE
President and Chief Executive Officer

STEADY, PROVEN PERFORMANCE SINCE 1993

Newalta has delivered consistent, profitable performance for 16 years. We are the industry leader in Canada with more than 2,000 people operating in more than 80 locations across the country.

We reported our strongest operating and financial results as a company in 2008, and we positioned ourselves to weather the challenging economic climate of 2009. We will remain poised to capitalize on opportunities as the economy recovers in the future.

Since 1993, we have achieved average revenue and EBITDA growth of approximately 30 percent per year and average return on capital of approximately 20 percent. Over the past 10 years, EBITDA per share has increased 600 percent from $0.50 to $3.00.

Providing innovative solutions has been a key to our success throughout the history of the company. We have always focused on developing and implementing environmentally sound and cost-effective ways to recover products from waste.

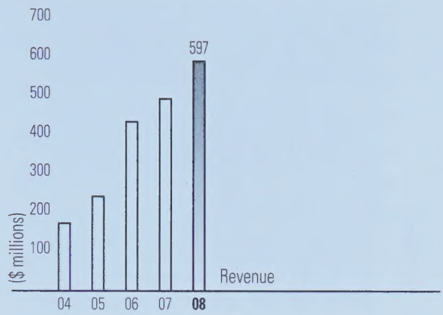
From the beginning, environment, health and safety excellence has been a core value of our business. In the past three years, as we have grown dramatically, our lost-time injury frequency rate has been significantly reduced.

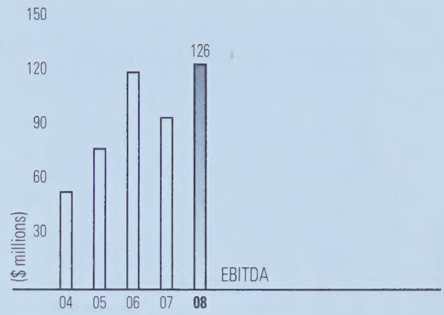
Our success is rooted in the talent and experience of our people who take pride in their attention to detail, the disciplined management of our business and in developing innovative solutions for our customers' complex environmental challenges.

2009 OUTLOOK

We face challenging market conditions in 2009 with our customers across Canada impacted by a weakened economy. We also face reduced prices for the products we recover from waste. We have restricted expenditures and curtailed capital investments to preserve our balance sheet.

In determining the dividend to be paid to our shareholders, the board reviews, among other things, our historical financial performance, internal forecasts for the near term including capital requirements, and the economic environment. After review of all factors, and in light of volatility of the markets, our board





has declared a dividend payment of $0.05 per share to shareholders of record as at March 31, 2009. The board will continue to review future dividends as financial performance is known and conditions stabilize.

We invested $104 million in 2008 to improve the productivity and efficiency of our operations as well as to expand our services and to increase process capacities to meet market demand. The returns from these investments will partially offset market weakness in 2009.

We are monitoring our markets and reviewing our performance in all areas to maximize our efficiency and bottom-line performance. These initiatives will contribute to stronger results as our markets recover and provide an even stronger foundation for our future success.

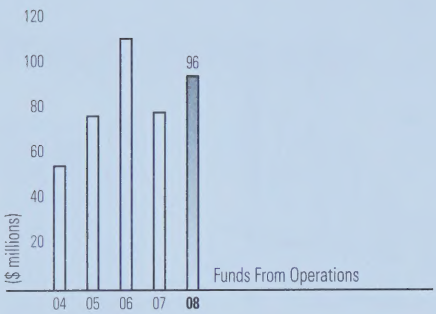
2008 HIGHLIGHTS

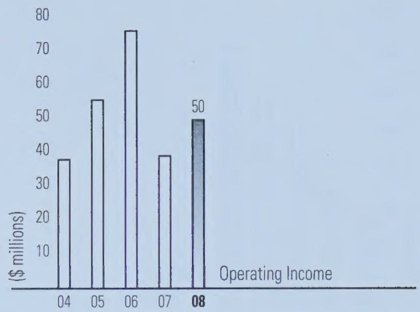
2008 revenue and EBITDA increased 19 percent and 31 percent compared to 2007, to $597 million and $126 million, respectively. Improved performance was a result of solid returns from investments made in 2007 to expand services and improve profitability as well as strong commodity prices.

Our oilfield business unit benefitted from strong crude oil prices in the first three quarters of 2008. Waste processing and recovered oil volumes increased over the same time period. The increase in volumes was attributable to continued growth in our heavy oil business, including continued success in providing onsite services to companies using Steam Assisted Gravity Drainage ("SAGD") for heavy oil production.

In 2008, we also continued to expand our drill site services in the U.S. as we moved equipment into this market to support our growing customer base. Even though there was no increase in natural gas drilling in Canada over 2007 levels, we were successful in increasing our equipment utilization from 27 percent in 2007 to 40 percent in 2008.

In eastern Canada, growth capital investments and acquisitions in 2007 contributed to a strong performance for the division. The Québec/Atlantic Canada business unit grew significantly as a result of investments and acquisitions, including VSC. In Ontario, event-based volumes at the Stoney Creek Landfill were strong in the second half of the year. As a result of the successful expansion of our Eastern Division, this business now contributes 40 percent of our total revenue, compared to 30 percent in 2007.





In December of 2008, unitholders approved the conversion of Newalta from an income trust to a dividend-paying corporation. We believe the conversion will allow us to capitalize on a broad range of future organic growth opportunities while continuing to deliver solid returns to our investors.

FUTURE OPPORTUNITIES

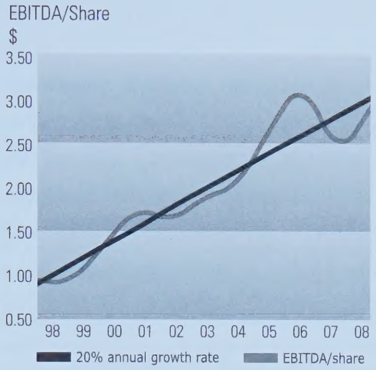
Our success in diversifying our business means we are well positioned with a wide range of long-term opportunities in our existing operations and service offerings.

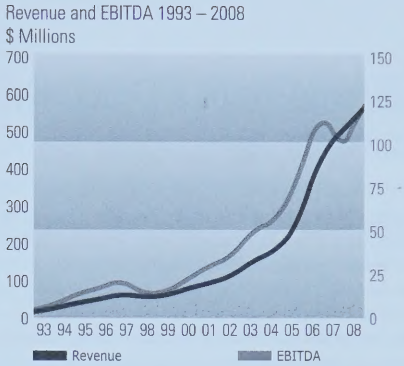
We have a number of opportunities to expand services at our fixed facility network, which is the backbone of our operations and currently generates approximately 75 percent of our revenue. Opportunities in this area cover our entire network of more than 80 facilities and we believe they represent low-risk, high-return opportunities.

For several years, two of our facilities have serviced the heavy oil production market in northern Alberta. In 2006, we introduced a new concept to SAGD producers to treat slop oil on their sites and to recover crude oil from slop oil waste. In this role, we are integral in the production process and contribute directly to our customers' bottom line performance. Our progress over the past two years has been outstanding as we transition from short-term trials to long-term agreements. We will continue to expand this service as new contracts are secured.

Beyond heavy oil treatment services, we believe that moving our operations onto our customers' sites will transform the industry over the next five years. We have the ability to leverage our fixed facility operations and organization. Over the past two years we made steady progress and we earned the confidence of our large customers through our track record of success with onsite projects. We believe this business area has tremendous long-term opportunities including the ability to take our onsite capabilities internationally.

Our strategy to expand in the U.S. market is to develop a platform of fully integrated services including fixed facility waste processing, as well as onsite and drill site services that are similar to our western Canadian business. Two years ago, we introduced our drill site equipment to the western U.S. market





and we have established a solid base business there with an excellent reputation for high quality and cost-effective services. We will continue to deploy equipment to meet customer demand and finalize our strategic plan for further expansion in this market over the next three-to-four years.

Innovation will remain a key to our future success as we continue to develop new processes to solve waste management challenges for our customers in a cost-effective and environmentally sensitive manner. We will continue to search worldwide for innovative wastewater treatment solutions.

CONCLUSION

We have delivered steady, proven performance and solid returns to our investors for the past 16 years. We have diversified our services and expanded across Canada while building an industry-leading company. We have been through challenging market conditions in the past, and emerged stronger and more efficient.

The demand for lower-cost and environmentally superior alternatives for industrial waste management will continue to grow nationally and internationally, and we are uniquely positioned with the people, processes and proven performance to lead the transformation of our industry in the years ahead.

ALAN P. CADOTTE

President and Chief Executive Officer

Management's Discussion and Analysis

Years ended December 31, 2008 and 2007

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to Newalta Inc., Newalta Income Fund (the "Fund"), and Newalta Corporation (the "Corporation" and together with Newalta Inc., the Fund, and other subsidiaries, "Newalta"), or their management, are intended to identify forward-looking statements. Such statements reflect the current views of Newalta with respect to future events and are subject to certain risks, uncertainties and assumptions, including, without limitation, general market conditions, commodity prices, interest rates, exchange rates, seasonality of operations, growth, acquisition strategy, integration of businesses into Newalta's operations, potential liabilities from acquisitions, dependence on senior management, regulation, landfill operations, competition, risk of pending and future legal proceedings, employees, labour unions, fuel costs, access to industry and technology, possible volatility of share price, insurance, future capital needs, debt service, sales of additional shares, dependence on Newalta, the nature of the shares/trust units, unlimited liability of shareholders, nature of the debentures issued by Newalta, Canadian federal income tax, redemption of shares, loss of mutual fund trust status, the effect of Canadian federal government proposals regarding non-resident ownership, and such other risks or factors described from time to time in the reports filed with securities regulatory authorities by Newalta.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Many other factors could also cause actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements and readers are cautioned that the foregoing list of factors is not exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. Furthermore, the forward-looking statements contained in this document are made as of the date of this document and the forward-looking statements in this document are expressly qualified by this cautionary statement. Unless otherwise required by law, Newalta does not intend, or assume any obligation, to update these forward-looking statements.

This Management's Discussion and Analysis contains references to certain financial measures, including some that do not have any standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and may not be comparable to similar measures presented by other corporations or entities. These financial measures are identified and defined below:

"Assets employed" is provided to assist management and investors in determining the effectiveness of the use of the assets at a divisional level. Assets employed is the sum of capital assets, intangible assets, and goodwill allocated to each division.

"Cash distributed" is provided to assist management and investors in determining the actual cash outflow to shareholders/unitholders in each period and is used to assist in analyzing liquidity. Cash distributed is calculated as follows:

	Three months ended December 31,		Year ended December 31,	
($000s)	**2008**	2007	**2008**	2007
Distributions declared	**23,472**	22,930	**93,180**	90,117
Add:				
Opening distributions payable	**7,804**	7,519	**7,662**	6,834
Less:				
Ending distributions payable	**(7,560)**	(7,662)	**(7,560)**	(7,662)
DRIP units issued but not distributed	**(275)**	-	**(275)**	-
Distributions reinvested through DRIP[1]	**(1,330)**	(4,348)	**(10,914)**	(13,933)
Cash distributed	**22,111**	18,438	**82,093**	75,356

(1) Distribution Reinvestment Plan of the Fund.

"Combined divisional net margin" is used by management to analyze combined divisional operating performance. Combined divisional net margin as presented is not intended to represent operating income nor should it be viewed as an alternative to net earnings or other measures of financial performance calculated in accordance with GAAP. Combined divisional net margin is calculated from the segmented information contained in the notes to the consolidated financial statements and is defined as revenue less operating and amortization and accretion expenses for both the Western and Eastern division. Combined divisional net margin excludes inter-segment eliminations and unallocated revenue and expenses.

"EBITDA" and "EBITDA per share" is a measure of Newalta's operating profitability. EBITDA provides an indication of the results generated by Newalta's principal business activities prior to how these activities are financed, assets are amortized or how the results are taxed in various jurisdictions. EBITDA is derived from the consolidated statements of operations, accumulated other comprehensive income and retained earnings. EBITDA per share is derived by dividing EBITDA by the basic weighted average number of shares. They are calculated as follows:

	Three months ended December 31,		Year ended December 31,	
($000s)	**2008**	2007	**2008**	2007
Net earnings	**9,085**	23,613	**58,882**	61,189
Add back (deduct):				
Current income taxes	**21**	479	**949**	1,351
Future income taxes	**(3,490)**	(16,308)	**(9,339)**	(22,778)
Finance charges	**6,238**	5,309	**24,104**	13,879
Interest revenue	**-**	(42)	**(80)**	(697)
Amortization and accretion	**15,746**	13,405	**51,237**	43,284
EBITDA	**27,600**	26,456	**125,753**	96,228
Weighted average number of shares/units	**42,266**	41,191	**41,935**	40,342
EBITDA per share	**0.65**	0.64	**3.00**	2.39

"Funded debt" is a measure of our long term debt position. Funded debt is calculated by adding the senior long term debt to the amount of letters of credit outstanding at the period end date.

"Funds from operations" is used to assist management and investors in analyzing cash flow and leverage. Funds from operations as presented is not intended to represent operating funds from continuing operations or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. Funds from operations is derived from the consolidated statements of cash flows and is calculated as follows:

	Three months ended December 31,		Year ended December 31,	
($000s)	**2008**	2007	**2008**	2007
Cash from operations	**54,764**	21,675	**128,922**	54,058
Add back (deduct):				
Changes in working capital	**(37,468)**	(2,028)	**(35,066)**	24,201
Asset retirement costs incurred	**214**	881	**2,031**	1,711
Funds from operations	**17,510**	20,528	**95,887**	79,970

"Growth capital expenditures" or **"growth and acquisition capital expenditures"** are capital expenditures that are intended to improve Newalta's efficiency and productivity, allow Newalta to access new markets, and diversify its business. Growth capital or growth and acquisition capital are reported separately from maintenance capital by management because these types of expenditures are discretionary.

"Maintenance capital expenditures" are capital expenditures to replace and maintain depreciable assets at current service levels. Maintenance capital expenditures are reported separately from growth activity by management because these types of expenditures are not discretionary and are required to maintain current operating levels.

"Net margin" is used by management to analyze divisional operating performance. Net margin as presented is not intended to represent operating income nor should it be viewed as an alternative to net earnings or other measures of financial performance calculated in accordance with GAAP. Net margin is calculated from the segmented information contained in the notes to the consolidated financial statements and is defined as revenue less operating and amortization and accretion expenses.

"Operating income" is used by management to analyze corporate operating performance before taxes. Operating income is not intended to represent net earnings nor should it be viewed as an alternative to other measures of financial performance calculated in accordance with GAAP. Operating income is calculated from the statement of operations and comprehensive income and is defined as revenue less: operating expenses; selling, general and administrative expenses ("SG&A"); finance charges; and amortization and accretion expenses.

"Return on capital" is used by management to analyze the operating performance of investments in capital assets, intangibles and goodwill. Return on capital is calculated by dividing EBITDA, excluding reorganization costs, by the average net book value of capital assets, intangibles and goodwill.

References to assets employed, cash distributed, combined divisional net margin, EBITDA, EBITDA per share, funds from operations, funded debt, growth capital and growth and acquisition capital expenditures, maintenance capital expenditures, net margin, operating income and return on capital throughout this document have the meanings set out above.

Throughout this document, unless otherwise stated, all currency is stated in Canadian dollars and MT is defined as "tonnes" or "metric tons".

On December 31, 2008, Newalta completed its conversion from a trust structure to a corporate structure (the "Conversion"). The Conversion resulted in the reorganization of Newalta Inc. into a publicly-listed corporation that owns, directly, all of the units of the Newalta Income Fund and, indirectly, all of the shares of Newalta Corporation. Pursuant to the Conversion, holders of trust units of Newalta Income Fund received, for each unit held, one common share of Newalta Inc. Throughout this document references to shares includes trust units prior to the Conversion.

The following discussion and analysis should be read in conjunction with (i) the consolidated financial statements of Newalta Inc. and the notes thereto for the year ended December 31, 2008, (ii) the consolidated financial statements of the Fund and notes thereto and Management's Discussion and Analysis of the Fund for the year ended December 31, 2007, (iii) the most recently filed Annual Information Form of Newalta Inc., and (iv) the consolidated interim financial statements of the Fund and the notes thereto and Management's Discussion and Analysis for the quarters ended March 31, 2008, June 30, 2008 and September 30, 2008. Information for the year ended December 31, 2008 along with comparative information for 2007, is provided.

This Management's Discussion and Analysis is dated March 5, 2009 and takes into consideration information available up to that date.

SELECTED FINANCIAL INFORMATION

Selected Annual Information

($000s except per unit data)	**2008**	2007	2006
Revenue[1]	**597,035**	499,864	441,041
Operating income[1]	**50,492**	39,762	76,891
Net earnings	**58,882**	61,189	75,565
per unit ($), basic	**1.40**	1.52	2.14
per unit ($), diluted	**1.40**	1.51	2.11
Net earnings from continuing operations	**58,882**	61,189	74,080
per unit ($), continuing operations	**1.40**	1.52	2.10
per unit ($), discontinued operations	**-**	-	0.04
Funds from operations	**95,887**	79,970	112,510
per unit ($), basic	**2.29**	1.98	3.18
per unit ($), diluted	**2.29**	1.98	3.14
per unit ($), continuing operations	**2.29**	1.98	3.16
per unit ($), discontinued operations	**-**	-	0.02
Total assets	**1,051,910**	1,023,481	802,844
Senior long-term debt – net of issue costs	**263,251**	206,940	166,271
Convertible debentures – face value	**115,000**	115,000	-
Distributions declared	**93,180**	90,117	75,923
Distributions declared per unit	**2.22**	2.22	2.14

(1) Amounts reflected exclude 2006 discontinued operations

The factors that impacted revenue and profitability are outlined under the heading entitled "Results of Operations". Total assets increased by $28.4 million or 3% in 2008 primarily due to acquisitions and growth capital spending. Total growth and acquisition capital expenditures in 2008 were $104.4 million as compared to $193.0 million in 2007 and $286.3 million in 2006. Growth capital investments for 2008 were funded by drawing on our credit facility. In 2007, growth capital and acquisitions were funded by drawing on our credit facility and proceeds from the issuance of $115.0 million in convertible debentures (the "Debentures").

Segmented information is discussed in further detail under "Results of Operations".

CORPORATE OVERVIEW

For the year, revenue was up 19% and EBITDA increased 31% compared to 2007. Profitability improved as EBITDA was 21% of revenue compared to 19% last year. The strong performance in 2008 was largely attributable to high commodity prices and solid returns from investments made in 2007.

The diversification of the business over the past 4 years is illustrated in the charts below.

In Q4 2008, revenue and EBITDA were both up modestly at 6% and 4% from the prior year, respectively. In the quarter, non-recurring charges were more than $3 million including conversion costs, reorganization costs, and changes in estimated revenues associated with certain environmental projects. Excluding these charges, EBITDA would have been approximately $31 million, or up 17%, compared to last year. Combined divisional net margin was up $0.6 million, with the Western Division down $3.6 million and the Eastern Division up $4.2 million. In the Western Division, the volumes of waste processed was up 6% and crude oil recovered to our account was flat compared to last year, but the realized value of the crude oil was down 30%, from $73.80/bbl in Q4 2007 to $51.30/bbl in Q4 2008. The Eastern Division acquisitions, including the lead-acid battery recycling operation ("VSC"), delivered strong results, while at the Stoney Creek landfill ("SCL"), tonnage was up due to strong event-based activity.

Compared to Q3 2008, for Q4 2008 revenue was down 8% and EBITDA was down $10 million, or 27%. Key factors in the decline were the $6.0 million drop in crude oil sales and non-recurring charges. Combined divisional net margin was down $9.6 million with the Western Division down $12.1 million and the Eastern Division up $2.5 million. In the Western Division, volumes of waste processed and crude oil recovered to our account were both down about 7%. The revenue and margin from the crude oil recovered was down almost $6 million as the realized price decreased from $105.40/bbl to $51.30/bbl. In the Eastern Division, the amount of lead sold was up 16%, while the average price per tonne was down 8%. SCL receipts were up sharply in the fourth quarter compared to the third quarter. The increase in SG&A costs was largely attributable to the non-recurring costs associated with the Conversion. Funded debt to EBITDA at year-end was below 2.5.

On December 31, 2008, Newalta completed the Conversion from a trust structure to a corporate structure. The Conversion has resulted in the reorganization of Newalta Inc. into a publicly-listed corporation that owns all of the units of the Fund and all of the shares of the corporation.

OUTLOOK

In Q1 2008, revenue was $150.2 million and EBITDA was $34.1 million. Our markets were extremely volatile over the past year with crude oil lead prices and industrial production declining dramatically. In Q1 2009, we anticipate a reduction in waste volumes in all business units and a steep decline in the value of the products that we recover from waste. The outlook beyond Q1 2009 is uncertain. We have taken prudent and responsible steps to manage expenses, improve profitability and productivity, strenghthen our balance sheet, restrict capital expenditures, and review all of our business practices, as well as our organization. The steps that we are taking will reduce our cost structure and enable us to deliver improved results as our markets recover.

RESULTS OF OPERATIONS - WESTERN DIVISION

OVERVIEW

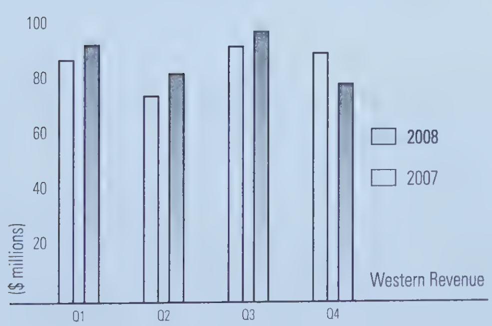
The Western Division operates more than 55 facilities with more than 920 people in British Columbia, Alberta, Saskatchewan, Texas and Wyoming. The division is comprised of three business units: Oilfield, Drill Site and Industrial. The division is operated and managed as an integrated set of assets to provide a broad range of seamless waste management and recycling services to customers.

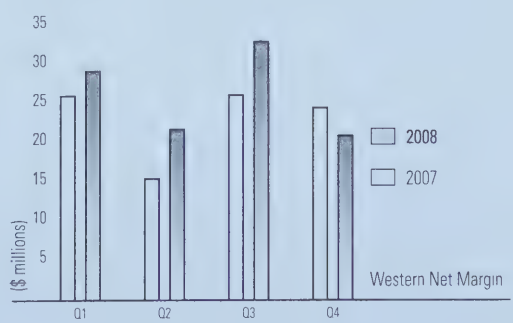
Western's performance is affected by the following factors:

- state of the oil and gas industry in western Canada
- the amount of waste generated by crude oil producers
- fluctuation in the price of crude oil
- natural gas drilling activity
- fluctuation in the U.S./Canadian dollar exchange rate
- the strength of other industries in western Canada, including, construction, forestry, mining, petrochemical, pulp and paper, refining, and transportation service industries

In 2008, the business units contributed the following to division revenue:

• Oilfield	59%
• Drill Site	13%
• Industrial	28%





The following table compares Western's results for the periods indicated:

($000s)	Q4 2008	Q4 2007	% Change	2008	2007	% Change
Revenue – external	**79,645**	91,025	(13)	**356,146**	348,424	2
Revenue – internal	**250**	114	119	**919**	652	41
Operating costs	**53,120**	60,499	(12)	**229,423**	234,896	(2)
Amortization and accretion	**5,545**	5,823	(5)	**21,614**	20,852	4
Net margin	**21,230**	24,817	(14)	**106,028**	93,328	14
Net margin as % of revenue	**27%**	27%	-	**30%**	27%	11
Maintenance capital	**6,163**	3,909	58	**12,342**	11,373	9
Growth capital(1)	**20,512**	10,861	89	**51,456**	30,510	69
Assets employed(2)	**n/a**	n/a	n/a	**470,121**	441,234	7

(1) Growth capital does not include acquisitions.

(2) Assets employed is the sum of capital assets, intangible assets and goodwill.

For the full year versus the prior year:

- revenue increased 2%
- net margin increased 14%
- net margin as a percent of revenue increased from 27% to 30%

Western's strong performance in 2008 resulted from increased recovered crude oil volumes and strong oil prices. Compared to 2007, recovered crude oil volumes for our account increased by 11% and crude oil prices were up 39%. Oil recovered increased in 2008 due to heavy oil/SAGD volumes. In 2008, we returned to 2006 levels of recovered oil volumes and reduced the volatility in recovered volumes with our increased focus in the heavy oil/SAGD market. Our exposure to the more volatile drilling industry was offset by an increased focus on waste oil streams from heavy oil/SAGD producers.

Compared to Q4 2007, Western's Q4 2008 revenue and net margin were negatively impacted by declines in crude oil sales, which were down $2.0 million. Recovered oil volumes were flat year-over-year and the average price was down 30%. Drill Site benefited from improved utilization in both the U.S. and Canada, while demand for environmental services weakened significantly. Declines in Industrial waste volumes were offset by improvement in oil recycling product sales.

Compared to Q3 2008, Q4 was negatively impacted by a 51% decline in crude oil price which resulted in a decline in revenue of $5.9 million.

By the end of Q1 2009, we will have reorganized our business units within the Western Division (currently Oilfield, industrial, and Drill site) into Facilities, Drill Site and Heavy Oil.

CAPITAL SPENDING

Western's growth capital expenditures in Q4 2008 were $20.5 million and $51.5 million for 2008. Projects included expansion of services in drill site and heavy oil/SAGD services as well as productivity improvements to existing Oilfield facilities, including expanding onsite activities in heavy oil/SAGD. Maintenance capital expenditures were $6.2 million and $12.3 million, for the quarter and year, respectively.

Total capital investments in the first half of 2009 are planned to be $9.0 million.

WESTERN OUTLOOK

In Q1 2008, the Western Division delivered $94 million revenue and $29.5 million net margin. Current drilling rig utilization rates in western Canada are down about 25% in 2009 compared to 2008 and this decline in activity will impact waste volumes processed and crude oil recovered. In addition, the value of crude oil recovered to our account in 2009 is down approximately $45.00/bbl in 2009, from $81.20/bbl realized in Q1 last year.

OILFIELD

Oilfield business unit revenue is primarily generated from:

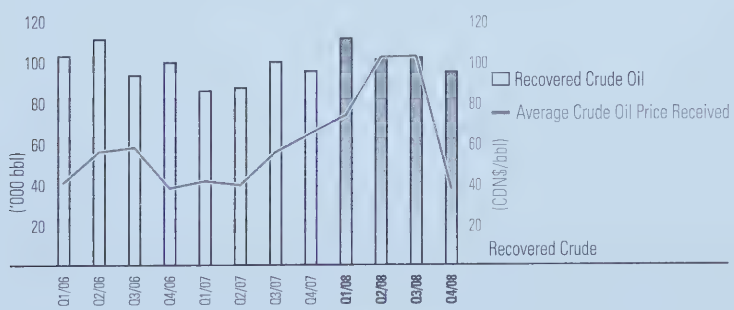
- fees from the processing and disposal of oilfield-generated wastes, including water recycling and disposal, clean oil terminalling, custom treating, landfill, and onsite services
- sale of recovered crude oil for our account

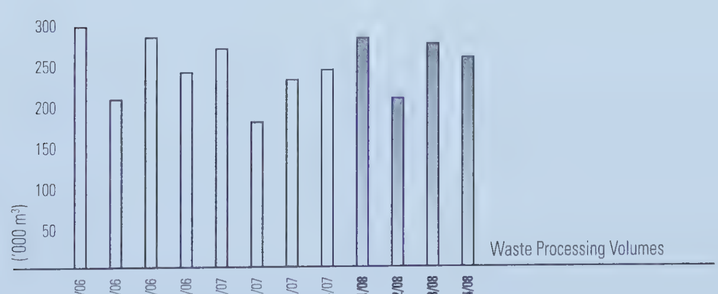
For 2008 compared to 2007, Oilfield business unit's revenue increased 14% as a result of high oil prices and increased waste volumes.

Waste and recovered crude oil volumes both declined in 2007 compared to 2006 due to reduced drilling activity in western Canada. In 2008, volumes increased due to higher volumes of waste derived from SAGD production. Over the past three years:

- the annual volume of recovered crude oil as a percent of the annual volume of waste processed has been consistent at approximately 6%
- the average annual price we received for recovered crude oil has averaged approximately 83% of the Edmonton Par price[1]

WASTE PROCESSING VOLUMES AND RECOVERED CRUDE OIL SUMMARY





(1) Edmonton par is a more accurate comparator than WTI. Our recovered crude oil is sold in Canadian dollars

	2008	**Q4**	**Q3**	**Q2**	**Q1**
Waste processing volumes ('000 m^3)	**1,027**	**259**	**276**	**209**	**283**
Recovered crude oil ('000 bbl)[(1)]	**410.4**	**95.1**	**102.3**	**101.3**	**111.7**
Average crude oil price received (CDN$/bbl)	**86.20**	**51.30**	**105.40**	**105.10**	**81.20**
Recovered oil sales ($ millions)	**35.4**	**4.9**	**10.8**	**10.6**	**9.1**
Edmonton par price (CDN$/bbl)	**102.60**	**66.40**	**122.90**	**124.60**	**96.60**

	2007	Q4	Q3	Q2	Q1
Waste processing volumes ('000 m^3)	927	244	232	180	270
Recovered crude oil ('000 bbl)[(1)]	368.3	95.4	100.0	87.2	85.7
Average crude oil price received (CDN$/bbl)	62.20	73.80	66.10	52.70	54.30
Recovered oil sales ($ millions)	22.9	7.0	6.6	4.6	4.7
Edmonton par price (CDN$/bbl)	75.70	85.30	79.10	71.3	67.00

	2006	Q4	Q3	Q2	Q1
Waste processing volumes ('000 m^3)	1,030	241	284	208	297
Recovered crude oil ('000 bbl)[(1)]	406.4	99.6	93.2	110.9	102.7
Average crude oil price received (CDN$/bbl)	59.80	51.40	68.00	66.20	53.70
Recovered oil sales ($ millions)	24.3	5.1	6.3	7.3	5.5
Edmonton par price (CDN$/bbl)	72.60	63.80	79.10	78.40	69.00

(1) Represents the total crude oil recovered and sold for our account.

DRILL SITE

Drill Site business unit revenue is primarily generated from:

- the supply and operation of drill site processing equipment
- fees for environmental services comprised of environmental projects and drilling waste management services

Drill site processing equipment comprises two main groups of equipment: solids control and drill cuttings. Solids control equipment consists of centrifuges and ancillary equipment that can be used on any drilling location to remove unwanted solids from any type of drilling fluid and operate closed loop systems where the drilling muds and water can be reused. Drill cuttings equipment is specialized to gas wells drilled using oil-based drilling muds. This equipment is used to recover oil-based fluids for reuse in the active mud system and to manage the drill cuttings to minimize transportation and disposal of solid waste.

In 2008, we increased our fleet by approximately 9% while at the same time we improved utilization from 27% to 40%. Our strategy of deploying idle drill site equipment to the U.S. market more than tripled the active units while utilization in Canada was relatively flat. The revenue gains generated from the drill site processing equipment were offset by weak demand for environmental services.

In Q4 2008, utilization was 45%, compared to 28% in Q4 2007 and up from 41% in Q3 2008 as we continue to gain new business in both Canada and the U.S.

The table below reflects the changes in average drill site equipment-in-use and utilization:

Drill Site Utilization

	2008					2007				
	2008	**Q4**	**Q3**	**Q2**	**Q1**	2007	Q4	Q3	Q2	Q1
Average equipment-in-use(1)										
Canada	**24**	**33**	**20**	**7**	**37**	25	26	24	16	35
U.S.	**35**	**40**	**41**	**29**	**30**	11	14	11	14	5
	59	**73**	**61**	**36**	**67**	36	40	35	30	40
Average equipment available(2)	**148**	**162**	**147**	**142**	**141**	136	141	137	137	129
Utilization	**40%**	**45%**	**41%**	**25%**	**48%**	27%	28%	26%	22%	31%

(1) "Average equipment in use" is calculated by taking the product of the total amount of average processing equipment and the utilization rate for the period. Average equipment available is adjusted by 10% for maintenance and transportation. Maximum utilization of 100% represents 90% of the total number of processing days

(2) The average equipment available in the U.S. in Q4 2008 and the year ended December 31, 2008 was 73 and 56 units respectively. In Q4 2007 and for the year ended December 31, 2007, there were 23 and 18 units in the U.S., respectively

INDUSTRIAL

Industrial business unit revenue is generated from two main areas:

- oil recycling, including the collection and processing of waste lube oils and the sale of finished products
- industrial fixed facilities, including our service centres and transport

In 2008, performance was relatively consistent with 2007, with oil recycling revenue up modestly for the year, driven by increases in volume and price. The performance of fixed facilities was flat, excluding the impact of the sale of non-core assets.

RESULTS OF OPERATIONS - EASTERN DIVISION

Overview

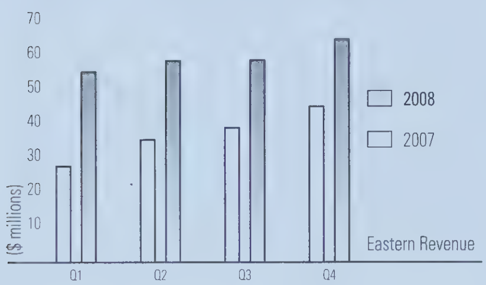
Eastern was established through acquisitions with operations in Ontario in 2006 and the subsequent expansion into Québec and Atlantic Canada in late 2006 and 2007. Eastern provides industrial waste management, recycling, and other environmental services to markets located in eastern Canada and the United States through its integrated network of over 30 facilities with more than 775 employees. This network features an engineered non-hazardous solid waste landfill located in Stoney Creek ("SCL") with an annual permitted capacity of 750,000 metric tonnes of waste per year and, based on current volumes, has an estimated remaining life of 10 years. The network also includes a lead-acid battery recycling facility with two long body kilns, located in Ville Ste-Catherine, Québec ("VSC") with an annual capacity of approximately 80,000 MT.

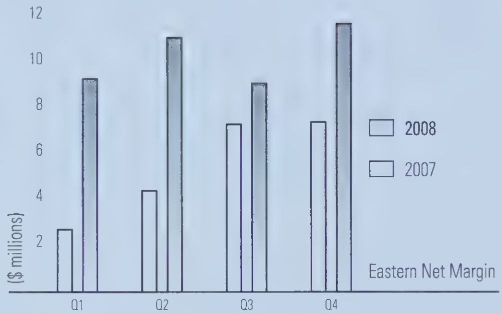
Key factors that impact on the performance of the Eastern Division include:

- market conditions in eastern Canada and bordering U.S. states, including the automotive, construction, forestry, manufacturing, mining, oil and gas, petrochemical, pulp and paper, refining, steel, and transportation service industries
- fluctuation in the U.S./Canadian dollar exchange rate
- supply and demand in the North American battery manufacturing industry
- fluctuations in the trading price of lead

In 2008, the business units contributed the following to division revenue:

- Québec/Atlantic 68%
- Ontario 32%





The following table compares Eastern's results for the periods indicated:

($000s)	**Q4 2008**	Q4 2007	% Change	**2008**	2007	% Change
Revenue – external	**65,696**	46,008	43	**240,809**	150,743	60
Operating costs	**47,137**	34,983	35	**180,569**	114,416	58
Amortization and accretion	**6,798**	3,513	94	**18,718**	14,160	32
Net margin	**11,761**	7,512	57	**41,522**	22,167	87
Net margin as % of revenue	**18%**	16%	13	**17%**	15%	13
Maintenance capital	**2,266**	1,270	78	**8,312**	4,412	88
Growth capital(1)	**12,993**	13,146	(1)	**36,036**	32,555	11
Assets employed(2)	**-**	-	-	**351,617**	327,663	7

(1) Growth capital does not include acquisitions.

(2) Assets employed is the sum of capital assets, intangible assets and goodwill.

For the full year versus the prior year:

- revenue increased 60%
- net margin increased 87%
- net margin as a percent of revenue improved from 15% to 17%

Contributions from 2007 acquisitions and growth capital investments drove revenue and net margin growth in 2008.

In Q4 2008, revenue was up 43% and net margin was up 57%. Strong performance of VSC and SCL contributed to improved results.

In Q4 2008, net margin was up 28%, compared to Q3 2008. The improved results were attributable to a 45% increase in landfill activity, improved results from the Québec/Atlantic facilities, and an increase in lead tonnage sold.

CAPITAL EXPENDITURES

Eastern's growth capital expenditures were $13.0 million in Q4 and $36.0 million for the year. Growth capital was mainly invested in productivity improvement across the division and the restart of the second kiln at VSC. Maintenance capital expenditures were $2.3 million and $8.3 million, for the quarter and year, respectively.

Eastern's growth and maintenance capital expenditures in the first half of 2009 are planned to be approximately $6.0 million.

EASTERN OUTLOOK

In Q1 2008, the Eastern Division delivered $56.2 million revenue and $9.4 million net margin. The steep decline in the lead price in 2008 will impact the performance of our VSC operation in Q1 2009. In addition, the Ontario economy is weak and the performance of our operations in this market is anticipated to be reduced in the near term, particularly at SCL.

QUÉBEC/ATLANTIC

The Québec/Atlantic Canada business unit revenue is derived from:

- VSC, a lead-acid battery recycling facility in Québec
- waste treatment and transfer fixed facilities that process, consolidate, and bulk hazardous waste
- onsite services, including a fleet of specialized vehicles and equipment for waste transport and onsite processing

For 2008 compared to 2007, revenue for the Québec/Atlantic business unit was up 117%, primarily from the 2007 acquisitions of VSC and other locations in Atlantic Canada. We acquired VSC in the fourth quarter of 2007 with one kiln producing finished lead and the second kiln sitting idle. The revenue generated by the sale of finished lead products produced at this facility is tied to the trading price of soft lead, a commodity traded through the London Metals Exchange ("LME"), and the trading prices of the alloys added to the finished product to meet our customers' specifications. Our produced lead is primarily used in the production of automobile and industrial batteries.

We invested approximately $10 million in 2008 to restart the second kiln. Commissioning of the second kiln at VSC has continued in the first quarter and is proceeding as expected.

This facility generates revenue from direct lead sales and from the receipt of tolling fees. Direct lead sales occur where we purchase waste batteries from a network of scrap dealers and battery manufacturers. The cost of the waste batteries to us generally lags behind the trading price of lead on the LME. Once processed, direct lead products are sold at the current LME trading prices, with a premium based on the alloys incorporated into the finished product. As a result, our financial performance related to direct sales is directly linked to market fluctuations in the trading price of lead.

Tolling is a processing fee charged to customers for recycling their lead-acid batteries into recycled lead. In tolling arrangements, the customer provides the battery feedstock and our processing fees are generally fixed, but may fluctuate with the price of lead on the LME within a specified range.

Financial performance from tolling is therefore much less susceptible to fluctuations in the trading price of lead. Historically, the tonnage of lead sold generated from direct sales and tolling has been approximately a 60/40 split. To take advantage of increased tolling prices implemented in Q1 2008, and to manage the risk of declining LME prices, we increased our tolling tonnage to 43% by year end. Based on the operation of two kilns, our objective in 2009 is to achieve a 50/50 split between direct sales and tolling.

In 2008, the kiln operated 327 days in the year, with scheduled maintenance in January, July, and December. Lead tonnage sold was stable throughout 2008, averaging 11,600 MT per quarter. This business typically has a steady demand throughout the year and therefore reduces seasonal variability in cash from consolidated operating activities of Newalta. Finished product inventory turns over approximately 1 to 1.5 times per month.

The table below highlights the lead sold in 2008 and the percentage by weight of direct sales and tolling.

	2008	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Lead sold ('000 MT)	**46.3**	12.6	10.9	12.1	10.7
% of lead by weight					
Direct	**61**	57	62	58	67
Tolling	**39**	43	38	42	33
Average price - direct sales ($/MT)(1)	**2,480**	2,001	2,175	2,717	2,991
Average lagged LME price (U.S.$/MT)(2)	**2,218**	1,547	1,911	2,653	2,760

(1) Average price received means all direct sales of finished products, including finished products that are alloyed to customer specifications.

(2) Average LME price is based on a one-month lag consistent with our pricing structure.

ONTARIO

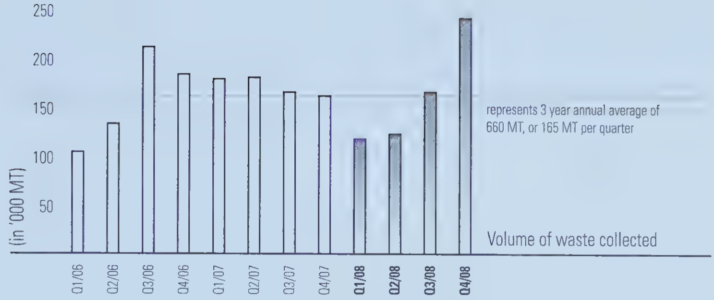
The Ontario business unit revenue is derived from:

- SCL, an engineered non-hazardous solid waste landfill
- waste treatment and transfer fixed facilities that process, consolidate, and bulk hazardous waste
- onsite services, including a fleet of specialized vehicles and equipment for emergency response, waste transport, and onsite processing

For the full year versus 2007, Ontario revenue increased marginally, supported by strong event-based activity in the second half of 2008. The performance of the fixed facilities was relatively flat.

Over the past three years, annual tonnage at SCL has remained between 640,000 to 700,000 MT per year. Event-based tonnage, which historically represents approximately half of our annual tonnage, varies significantly quarter to quarter. This was particularly evident in 2008 with the increase in event-based business in the second half of the year. Permitted annual capacity is 750,000 MT.

Annual Landfill Receipts	Waste collected (in '000 MT)
2008	**654.7**
2007	693.0
2006	638.4



CORPORATE AND OTHER

($000s)	**Q4 2008**	Q4 2007	% Change	**2008**	2007	% Change
Selling, general and administrative expenses	**17,734**	15,209	17	**62,129**	54,279	14
as a % of revenue	**12.2%**	11.1%	10	**10.4%**	10.9%	(5)
Amortization and accretion	**15,746**	13,405	17	**51,237**	43,284	18
as a % of revenue	**10.8%**	9.8%	10	**8.6%**	8.7%	(1)

Included in SG&A for the first 3 quarters was foreign exchange of $1.2 million which was reclassified in Q4 to the Western and Eastern Divisions to better reflect the impact foreign exchange exposure has on operations. In 2007, foreign exchange was not material and therefore not reclassified.

During Q4, we initiated a comprehensive cost control program that implemented hiring restrictions, postponed salary increases and restricted travel and other discretionary items. Non-recurring costs incurred in the quarter related to the Conversion from an income trust structure to a corporate structure and to restructuring costs. Excluding the impact of these non-recurring costs, SG&A as a percent of revenue would have been 10.8% for the quarter.

On an annual basis, the increase in SG&A was due primarily to the costs associated with the acquisitions completed in 2007. Excluding the impact of non-recurring costs, SG&A as a percent of revenue would have been 10% for the full year. With our continued focus on cost control, management expects SG&A costs to be reduced in 2009.

Amortization in Q4 increased primarily due to the inclusion of a full quarter of amortization for VSC and an asset impairment write-down in Eastern.

For the year, the increase in amortization was due to growth capital expenditures, the full year's amortization for VSC, net gains on the disposal of assets, and an asset impairment write-down. The net gain on the disposal of assets for the year of $2.7 million was offset by the impairment write-down of $2.5 million.

The following table reflects the breakdown of Newalta's finance charges.

($000s)	**Q4 2008**	Q4 2007	% Change	**2008**	2007	% Change
Bank fees and interest	**3,928**	4,198	(6)	**14,900**	12,768	17
Convertible debentures interest and accretion of issue costs	**2,310**	1,111	108	**9,204**	1,111	728
Finance charges	**6,238**	5,309	17	**24,104**	13,879	74

The increase in finance charges was primarily driven by higher average debt levels as compared to 2007. Finance charges associated with the Debentures include an annual coupon rate of 7%, the accretion of issue costs and discount on the debt portion of the debentures. See "Liquidity and Capital Resources" in this MD&A for discussion of Newalta's long term borrowings.

($000s)	**Q4 2008**	Q4 2007	% Change	**2008**	2007	% Change
Current tax	**21**	479	96	**949**	1,351	30
Future income tax	**(3,490)**	(16,308)	(79)	**(9,339)**	(22,778)	(59)
Provision for (recovery of) income taxes	**(3,469)**	(15,829)	(78)	**(8,390)**	(21,427)	(61)

Current tax expense for the year was $1.0 million, compared to current tax of $1.4 million in 2007. The decrease in current tax expense was due to lower provincial capital tax rates. While the trust structure was in place, Newalta generated approximately $150 million of tax loss carryforwards, Other than provincial capital taxes and U.S. state and federal income taxes, we do not anticipate paying any cash taxes for at least 3 years.

Newalta had a future income tax recovery of $9.4 million, compared to a future income tax recovery of $22.8 million in 2007. The change was attributable to the reduction in future federal income tax rate changes announced in 2007, as well as the earlier reversal of tax loss carryforwards due to the change to our structure.

See "Critical Accounting Estimates – Income Taxes" in this MD&A for further discussion on the impact of the Conversion.

As at March 5, 2009, Newalta had 42,400,472 shares outstanding, outstanding options to purchase up to 2,840,575 shares and a number of shares that may be issuable pursuant to the $115.0 million in Debentures (see Sources of Cash - Debentures).

LIQUIDITY AND CAPITAL RESOURCES

The term liquidity refers to the speed with which a company's assets can be converted into cash, as well as cash on hand. Our liquidity risk may arise from general day-to-day cash requirements, and in the management of our assets, liabilities and capital resources. Liquidity risk is managed against our financial leverage to meet obligations and commitments in a balanced manner.

Our debt capital structure is as follows:

($000s)	December 31, 2008	December 31, 2007
Working capital	**39,953**	74,529
Use of credit facility:		
Senior long term debt	**264,687**	207,417
Letters of credit	**49,249**	40,095
Funded senior debt A	**313,936**	247,512
Unused credit facility capacity	**111,064**	177,488
Debentures B	**115,000**	115,000
Total Debt = A+B	**428,936**	362,512

As a result of 2008 growth capital expenditures in excess of funds from operations and increased requirements for letters of credit, funded senior debt increased by $66.4 million to $313.9 million at the end of 2008.

Our working capital at December 31, 2008 was $40.0 million compared with $74.5 million at December 31, 2007. The decrease in working capital was a result of the following initiatives:

- business process initiatives to improve the timeliness and accuracy of invoices
- improved collection processes
- strengthened credit risk management

As a result of these initiatives, notwithstanding a 19% increase in revenue, net trade receivables improved by $25.5 million, day sales outstanding were reduced by 10 days and over 90 day accounts were reduced by $15.2 million.

In the first quarter of 2009, to provide flexibility in managing our levels of finished lead inventory, we sold lead into LME warehouses at the current market price. We anticipate continuing to access this market over the remainder of the year.

At current activity levels, working capital of $39.9 million is expected to be sufficient to meet our ongoing commitments and operational requirements of the business.

The Current Ratio is defined as the ratio of total current assets to total current liabilities. As a result of the improvement in the management and collection of receivables, this ratio declined from 1.65 times at December 31, 2007 to 1.34 times at December 31, 2008. This ratio exceeds our bank covenant minimum requirement of 1.20:1.

We have not purchased any asset-backed commercial paper investments.

SOURCES OF CASH

Our liquidity needs can be sourced in several ways including: funds from operations, borrowings against our credit facility, proceeds from the sale of assets, and the issuance of securities from treasury.

CREDIT FACILITY

During Q4, despite the weakened credit market, Newalta extended the maturity of its $425.0 million credit facility (the "Credit Facility") to October 2010 and improved the funded debt to EBITDA covenant to 3.00:1 for the term of the facility. The Credit Facility is available to fund growth capital expenditures and for general corporate purposes as well as to provide letters of credit to third parties for financial security up to a maximum amount of $60.0 million. The aggregate dollar amount of outstanding letters of credit is not categorized in the financial statements as long term debt; however, the issued letters of credit reduce the amount available under the Credit Facility.

At December 31, 2008, Newalta had senior long term debt of $264.7 million, compared to $207.4 million at December 31, 2007, an increase of $57.3 million. The increase was used to fund growth capital expenditures.

Included within our funded senior debt are letters of credit in the amount of $49.2 million ($40.1 million - 2007) which have been provided as security to third parties, including environmental regulatory authorities to satisfy asset retirement obligations.

Performance bonds, if less than $25.0 million in total, are not required to be offset against the borrowing amount available under the Credit Facility and are not included in the definition of funded debt. As at December 31, 2008, performance bonds totalled $15.2 million.

Financial performance relative to the financial ratio covenants under the current Credit Facility is reflected in the table below:

	December 31, 2008	Threshold
Current Ratio(1)	**1.34:1**	1.20:1 minimum
Funded Debt(2) to EBITDA(3)	**2:46:1**	3.00:1 maximum
Fixed Charge Coverage Ratio(4)	**1.19:1**	1.00:1 minimum

(1) Current Ratio means, the ratio of consolidated current assets to consolidated net current liabilities (excluding the current portion of long-term debt and capital leases outstanding, if any).

(2) Funded debt is a non-GAAP measure, the closest measure of which is long term debt. Funded debt is calculated by adding the senior long term debt to the amount of letters of credit outstanding at the reporting date.

(3) Funded Debt to EBITDA means the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing twelve-months. Funded Debt is defined as long-term debt and capital leases including any current portion thereof but excluding future income taxes and future site restoration costs. EBITDA is defined as the trailing twelve-months of EBITDA for the Fund which is normalized for any acquisitions completed during that time frame and excluding any dispositions incurred as if they had occurred at the beginning of the trailing twelve-months.

(4) Fixed Charge Coverage Ratio means, based on the trailing 12-month EBITDA less unfinanced capital expenditures and cash taxes to the sum of the aggregate of principal payments (including amounts under capital leases, if any), interest (excluding accretion for the convertible debentures), dividends paid for such period, other than cash payments in respect of a dividend reinvestment plan, if any. Unlike the Funded Debt to EBITDA ratio, the Fixed Charge Coverage ratio trailing twelve month EBITDA is not normalized for acquisitions.

We are restricted from declaring dividends if we are in breach of the covenants under the Credit Facility.

As at December 31, 2008, our funded senior debt was $313.9 million resulting in unused capacity of $111.1 million on our Credit Facility and a funded debt to EBITDA ratio of 2.46:1. In late 2008, we formalized a program to reduce funded senior debt through the following initiatives:

- reduction in the amount of outstanding letters of credit
- continued improvement in the management of working capital
- sale of idle, redundant or non-core assets
- restricted capital spending in the first half of 2009
- reduced expenses with the implementation of our cost control program which, included: hiring restrictions, postponement of salary increases and restrictions on travel and discretionary expenses

The actions we have undertaken positively impacted our funded debt position at the end of 2008, and we anticipate a continued positive impact throughout 2009, better positioning Newalta within this challenging economic environment.

We have $49.2 million of outstanding letters of credit issued to various environmental regulatory authorities of which $34.1 million have been issued in connection with our operations in Alberta. We have been participating with industry and regulatory authorities over the past several years in connection with changing the security requirements for permitted oilfield waste facilities in Alberta. The Alberta Energy Resources Conservation Board (ERCB) is awaiting approval of amendments to the Alberta Energy Statutes Amendment Act that will allow it to implement the Oilfield Waste Liability (OWL) Program. The OWL Program will replace the current fully funded liability management program for oilfield waste facilities with a facility specific asset to liability risk based assessment that is backed by the existing upstream oil and gas industry liability management program. If enacted in its present form, we anticipate that outstanding letters of credit in the amount of approximately $29 million will be returned to us with no additional security required to be posted in 2009. There can be no assurance that the draft legislation will be enacted in its proposed form or at all and the timing related thereto. In addition, there can be no assurance as to the timing of the enactment of the draft legislation or the respective timing of the release of our letters of credit.

In addition, we have letters of credit in the amount of approximately $5.0 million which under existing regulations can be replaced with performance bonds. We are currently replacing these letters of credit with performance bonds.

DEBENTURES

The Debentures have a maturity date of November 30, 2012 and bear interest at a rate of 7.0% payable semi-annually in arrears on May 31 and November 30 each year beginning May 31, 2008. Each $1,000 debenture is convertible into 43.4783 shares, at a conversion price of $23.00 per share, at any time at the option of the holders of the Debentures. The Debentures are not included in calculating financial covenants in the Credit Facility.

Upon maturity or redemption of the Debentures, we may pay the outstanding principal of the Debentures in cash or may, elect to satisfy our obligations to repay all or a portion of the principal amount of the Debentures which have matured or been redeemed by issuing and delivering that number of shares obtained

by dividing the aggregate amount of principal of the Debentures which have matured or redeemed by 95% of the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date fixed for redemption or the maturity date, as the case may be. We may also elect, subject to regulatory approval, from time to time, to satisfy our obligation to pay all or any part of the interest on the Debentures, on the date interest is payable under the Debenture Indenture, by delivering a sufficient number of shares to the debenture trustee to satisfy all or any part, as the case may be, of the interest obligation.

USES OF CASH

Our primary uses of funds included operating and SG&A expenses, payment of distributions, maintenance and growth capital expenditures as well as acquisitions.

CAPITAL EXPENDITURES

Capital expenditures for 2008 and 2007 were:

($000s)	**2008**	2007
Growth capital	**103,820**	96,380
Acquisitions[1]	**620**	96,666
Total growth capital and acquisitions	**104,440**	193,046
Maintenance capital expenditures	**20,762**	17,235
Total capital expenditures[2]	**125,202**	210,281

(1) Acquisitions do not include deferred payments related to the 2007 VSC acquisition.

(2) The numbers in this table differ from the consolidated statement of cash flows because the numbers above do not reflect the net change in working capital related to acquisitions.

Total capital expenditures for the year were $125.2 million, as compared to our budget of $135.0 million. Growth and acquisition capital expenditures in 2008 were funded by the Credit Facility as well as funds from operations and proceeds from the sale of assets.

Growth and acquisition capital investments of $86.6 million included productivity improvements in our fixed facility network and purchasing additional drill site centrifuges, SAGD equipment and onsite processing businesses.

Maintenance capital increased $3.6 million to $20.8 million. This increase relates to our increased asset base and increased activity at our fixed facility network and onsite operations, as well as the increased utilization of our drill site processing equipment.

The remaining capital expenditures related primarily to the SAP implementation in the Eastern Division as well as leasehold improvements.

Capital expenditures in the first half of 2009 are expected to total approximately $15 million, comprised of growth capital expenditures of $10 million and maintenance capital of $5 million. The capital program for the second half of 2009 will be established in the second quarter based on our financial performance and the outlook for our markets. We expect to continue to restrict growth capital spending until we see a significant improvement in our markets. These investments will be funded entirely from funds from operations.

DISTRIBUTIONS AND DIVIDENDS

In determining the dividend to be paid to our shareholders, the board of Directors considers a number of factors including the forecasts for operating and financial results, maintenance and growth capital requirements as well as market activity and conditions. After a review of all factors, and in light of the volatility in our markets, the board has declared a dividend of $0.05 per share, payable April 15 to shareholders of record as at March 31, 2009. The ex-dividend date is March 27, 2009. The board will continue to review future dividends as financial performance is know and conditions stabilize.

Although we changed our structure to a corporate structure on December 31, 2008 we have provided the following table as additional information as it provides another perspective on the sourcing of cash to fund distributions:

	Three months ended December 31,		Year ended December 31,		
($000s)	**2008**	2007	**2008**	2007	2006
Cash flows generated from operating activities	**54,764**	21,675	**128,922**	54,058	111,963
Distributions declared	**(23,472)**	(22,929)	**(93,180)**	(90,117)	(75,923)
Cash excess (shortfall)	**31,292**	(1,254)	**35,742**	(36,059)	36,040
Net earnings	**9,085**	23,613	**58,882**	61,189	75,565
Distributions declared	**(23,472)**	(22,929)	**(93,180)**	(90,117)	(75,923)
Net earnings (shortfall) excess	**(14,387)**	684	**(34,298)**	(28,928)	(358)

For Q4 and the year-ended December 31, 2008, cash flow generated from operating activities was greater than distributions declared, while net earnings were less than distributions declared. Declared distributions/dividends and cash distributed levels are monitored and assessed through internal forecasts which incorporate the most recent operating and financial results, maintenance and growth capital requirements as well as market activity and conditions.

Due to strong cash flow generated from operating activities, distributions declared were funded from our cash flows for the three months and year ended December 31, 2008. The cash excess was driven mainly by a decrease in working capital of $34.6 million for the year ended December 31, 2008. In addition, these calculations do not include proceeds from the Fund's DRIP through which $1.3 million and $10.9 million in distributions were reinvested by unitholders for the three months and year-ended December 31, 2008, respectively. It also does not include cash proceeds received through the sale of idle, redundant and non-core assets of $15.2 million in 2008.

The net earnings shortfall is mainly attributable to amortization and accretion expense, a non-cash expense, of $15.7 million and $51.2 million for the three months and year-ended December 31, 2008, respectively. Management does not believe that the shortfalls in the table above have resulted in an economic return of capital.

Newalta Inc. has not adopted a dividend reinvestment plan.

CONTRACTUAL OBLIGATIONS

Our contractual obligations, as at December 31, 2008, are:

($000s)	Total	Less than one year	1-3 years	4-5 years	Thereafter
Office leases	72,289	7,618	13,532	12,911	38,228
Operating leases	25,606	8,702	12,580	4,324	-
Surface leases	4,852	1,056	2,174	1,370	252
Convertible debentures	146,494	8,015	16,100	122,379	-
Senior long term debt[1]	264,687	-	264,687	-	-
Total commitments	**513,928**	**25,391**	**309,073**	**140,984**	**38,480**

(1) Senior long term debt is gross of transaction costs. Interest payments are not included.

Office building leases are our most significant near term portion of our long-term obligation which range from 5 to 17 years. The total estimated future cost for asset retirement obligations at December 31, 2008 was $9.8 billion. The net present value of this amount, $21.1 million (using a discount rate of 8%), has been accrued on the consolidated balance sheet at December 31, 2008. The majority of the undiscounted future asset retirement obligations relates to SCL in Ontario, which are expected to be incurred over the next 300 years. Excluding SCL, the total future costs are $36.3 million.

SUMMARY OF QUARTERLY RESULTS

($000s except per share/unit data)				**2008**				2007
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	**145,341**	**158,579**	**142,939**	**150,176**	137,075	133,358	111,594	117,837
Operating income	**5,616**	**19,041**	**9,293**	**16,542**	7,784	14,524	3,799	13,665
Net earnings	**9,085**	**18,717**	**11,776**	**19,304**	23,613	17,893	6,716	12,966
Earnings per share/unit ($)	**0.21**	**0.44**	**0.28**	**0.47**	0.57	0.44	0.17	0.33
Diluted earnings per share/unit ($)	**0.21**	**0.44**	**0.28**	**0.46**	0.54	0.43	0.16	0.33
Weighted average share/units - basic	**42,266**	**42,102**	**41,822**	**41,543**	41,191	40,579	40,361	39,209
Weighted average share/units - diluted	**42,266**	**42,111**	**41,950**	**41,635**	43,779	40,725	40,562	39,445
EBITDA	**27,600**	**37,441**	**26,573**	**34,139**	26,457	28,980	15,511	25,280

Quarterly performance is affected by seasonal variation as described below.

In 2007, acquisitions completed in eastern Canada in the second half of 2006 helped to partially offset the weak natural gas drilling environment in western Canada. Western endured a weak natural gas drilling environment during Q1 2007 which continued into Q2 2007. This weakness was further compounded by the spring breakup road bans and an extended wet season preventing the transportation of waste from well workovers and therefore reducing processing volumes. This resulted in lower revenue, earnings and operating income. In Q3 2007 operations returned to seasonal levels but operating income remained lower when compared to the same period in 2006, as a result of the continued weakness in the western Canadian natural gas drilling market. Operating income in Q4 2007 was lower than Q3 2007 due to a $2 million loss on the disposal of leasehold improvements associated with the early termination of

office space leases as well as increased SG&A and interest expense incurred in anticipation of growth. Net earnings in Q4 2007 improved over Q3 2007 attributable to a future income tax recovery due to a reduction in the estimated future income tax rate.

In 2008, the increase in revenue, operating income, and net earnings compared to Q1, Q2, and Q3 2007 are mainly due to full quarter contributions from acquisitions in each quarter as well as higher crude oil and lead revenues, driven both by increases in volume and commodity prices. Natural gas drilling remained at near 2007 levels in 2008. In Q4 2008, commodity prices declined significantly, negatively impacting revenue and margin in both divisions.

In January 2007, the Fund issued 3.0 million trust units for net proceeds of $73.9 million, which accounts for the majority of the increase in the weighted average shares/trust units from Q1 2007 to Q2 2007. The proceeds from this issuance were used to repay indebtedness incurred to fund the acquisitions and growth capital completed in the second half of 2006. From Q2 2007 to Q4 2008, the increase in the weighted average number of shares/trust units is related to the DRIP program. As a part of the Conversion, Newalta eliminated the DRIP program in January 2009.

SEASONALITY OF OPERATIONS

Quarterly performance is affected by, among other things, weather conditions, commodity prices, foreign exchange, market demand and the timing of our growth capital investments as well as acquisitions and the contributions from those investments. Acquisitions and growth capital investments completed in the first half of the year will tend to strengthen the second half financial performance.

Seasonality has a different effect on Western and Eastern, reflecting the different types of services that each provides. The following seasonality factors describe the typical quarterly fluctuations in operating results in the absence of growth and acquisition capital.

For Western, the frozen ground during the winter months in western Canada provides an optimal environment for drilling activities and consequently, the first quarter is typically strong. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. Road bans, which are generally imposed in the spring, restrict waste transportation which reduces demand for the Western Division's services and therefore, the second quarter is generally the weakest quarter of the year for Western. The third quarter is typically the strongest quarter for Western due to favourable weather conditions and market cyclicality. The expansion into the U.S. is anticipated to somewhat reduce the impact that weather conditions have on drilling related activities as the areas in the U.S. in which we operate are not affected by frozen ground requirements for winter drilling nor are they impacted by the spring thaw. For Western, over the past two years, quarterly revenue as a percentage of annual Western revenue was: 26% for the first quarter, 23% for the second quarter, 27% for the third quarter, and the fourth quarter was 24%.

Eastern's services are generally curtailed by colder weather in the first quarter, which is typically its weakest quarter as aqueous wastes and onsite work are restricted by colder temperatures. The third quarter is typically the strongest for Eastern due to the more favourable weather conditions and market cyclicality.

The addition of VSC to Eastern has reduced the significance of this variability, as the demand for recycled lead is not generally affected by seasonality. Eastern's quarterly revenue as a percentage of annual Eastern revenue has not been affected by the trends discussed above due to the effect of acquisitions. Based on the last two years of operations, including historical information acquired by management for acquisitions completed in 2007, we estimate that quarterly revenue as a percentage of annual revenue for Eastern would have approximately been: 23% in the first quarter, 25% in the second quarter, 25% in the third quarter and 27% in the fourth quarter.

OFF-BALANCE SHEET ARRANGEMENTS

We currently do not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Bennett Jones LLP provides us with legal services. Mr. Vance Milligan, a Director of Newalta Inc. is counsel to the law firm of Bennett Jones LLP. The total cost of these legal services during the three months and year ended December 31, 2008 was $0.5 million and $0.8 million, respectively (2007 - $0.4 million and $0.8 million, respectively).

We provide oilfield services to Paramount Resources Ltd., an oil and gas company. Mr. Clayton Riddell, a Director of Newalta Inc. is the Chairman and Chief Executive Officer of Paramount Resources Ltd. The total revenue for services provided by us to this entity for the quarter and twelve months ended December 31, 2008 was $0.3 million and $1.2 million, respectively (2007 - $0.3 million and $1.5 million, respectively).

These transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

SENSITIVITIES

Our revenue is sensitive to changes in commodity prices for crude oil, base oils, and lead. These factors have both a direct and indirect impact on our business. The direct impact of these commodity prices is reflected in the revenue received from the sale of products such as crude oil, base oils and lead. The indirect impact is the effect that the variation of these factors, including natural gas, has on activity levels of our customers and, therefore, demand for our services. The indirect impact of these fluctuations previously discussed are not quantifiable.

The following table provides management's estimates of fluctuations in key inputs and prices and the direct impact on revenue from product sales:

	Change in benchmark	Impact on Revenue ($)
LME lead price (U.S.$/MT)(1)	$220	6.0 million
Edmonton Par oil price ($/bbl)(2)	$1.00	0.4 million
Gulf Coast Base oil ($/litre)(3)	$0.05	0.8 million

(1) Based on approximately 27,500 tonnes of direct lead sales and the Canadian dollar at par with the U.S. dollar.

(2) The impact on cash flow is estimated for oil sales only using 2008 volumes sold to Newalta's account of approximately 400,000 barrels.

(3) Based on approximately 18 million litres of base oil sales.

SELECTED QUARTERLY INFORMATION

For the three months ended December 31, 2008

	Western	Eastern	Inter-segment	Unallocated[3]	Consolidated Total
External revenue	**79,645**	**65,696**	**-**	**-**	**145,341**
Inter segment revenue[1]	**250**	**-**	**(250)**	**-**	**-**
Operating expense	**53,120**	**47,137**	**(250)**	**-**	**100,007**
Amortization and accretion expense	**5,545**	**6,798**	**-**	**3,403**	**15,746**
Net margin	**21,230**	**11,761**	**-**	**(3,403)**	**29,588**
Selling, general and administrative	**-**	**-**	**-**	**17,734**	**17,734**
Finance charges	**-**	**-**	**-**	**6,238**	**6,238**
Earnings before taxes	**21,230**	**11,761**	**-**	**(27,375)**	**5,616**
Capital expenditures[2] and acquisitions	**26,677**	**15,878**	**-**	**4,099**	**46,654**
Goodwill	**62,280**	**41,317**	**-**	**-**	**103,597**
Total assets	**552,132**	**425,233**	**-**	**74,545**	**1,051,910**

For the three months ended December 31, 2007

	Western	Eastern	Inter-segment	Unallocated[3]	Consolidated Total
External revenue	91,025	46,008	-	42	137,075
Inter segment revenue[1]	114	-	(114)	-	-
Operating expense	60,499	34,983	(114)	-	95,368
Amortization and accretion expense	5,823	3,513	-	4,069	13,405
Net margin	24,817	7,512	-	(4,027)	28,302
Selling, general and administrative	-	-	-	15,209	15,209
Finance charges	-	-	-	5,309	5,309
Earnings before taxes	24,817	7,512	-	(24,545)	7,784
Capital expenditures[2] and acquisitions	14,843	73,418	-	17,446	105,707
Goodwill	62,280	41,317	-	-	103,597
Total assets	566,133	380,712	-	76,636	1,023,481

(1) Inter-segment revenue is recorded at market, less the costs of serving external customers

(2) Includes capital asset additions and the purchase price of acquisitions

(3) Management does not allocate selling, general and administrative, taxes, and interest costs in the segment analysis.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements in accordance with GAAP requires management to make estimates with regard to the reported amounts of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and other factors determined by management. Because this involves varying degrees of judgment and uncertainty, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate.

AMORTIZATION AND ACCRETION

Amortization of capital assets and intangible assets incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change impacting the operation of plant and equipment. Accretion expense is the increase in the asset retirement obligation over time. The asset retirement obligation is based on estimates that may change as more experience is obtained or as general market conditions change impacting the future cost of abandoning Newalta's facilities. Amortization of capital assets and intangible assets incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change impacting the operating of plant and equipment.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are estimated by management based on the anticipated costs to abandon and reclaim all Newalta facilities, landfills and the projected timing of the costs to be incurred in future periods. Management, in consultation with Newalta's engineers, estimates these costs based on current regulations, costs, technology, and industry standards. The fair value estimate is capitalized as part of the cost of the related asset and amortized to expense over the asset's useful life. There were no significant changes in the estimates used to prepare the asset retirement obligation in 2008 compared to those provided in Newalta's annual consolidated financial statements for the year ended December 31, 2007.

GOODWILL

Management performs a test for goodwill impairment annually and whenever events or circumstances make it possible that impairment may have occurred. Determining whether impairment has occurred requires a valuation of the respective reporting unit, based on its future discounted cash flows. In applying this methodology, management relies on a number of factors, including actual operating results, future business plans, economic projections and market data. Management tests the valuation of goodwill as at September 30 and did not see any impairment in the goodwill balance recorded. In addition, management assesses the reasonableness of assumptions used for the September 30 valuation to determine if further impairment testing is required as at December 31. We determined that no further impairment testing was necessary as at December 31, 2008. However, in light of the current economic conditions, we undertook an additional review of assumptions used for the test of the valuation of goodwill and reconfirmed our assessment that there was no need for additional impairment testing.

INCOME TAXES

Current income tax expense represents capital taxes paid in Central and Eastern Canada by the Canadian subsidiaries and U.S. taxation imposed on the U.S. subsidiary.

Prior to the elimination of the trust structure on December 31, 2008, Newalta Income Fund itself was sheltered from any current tax liability as all of its taxable income was distributed to unitholders.

Future income taxes are estimated based on temporary differences between the book value and tax value of assets and liabilities using the applicable future income tax rates under current law. The change in these temporary differences results in a future income tax expense or recovery. The most significant risk in this estimate is the future income tax rate used for each entity based on provincial allocation calculations and the timing of reversal of temporary differences.

As a result of the elimination of the trust structure, there have been a number of one time future income tax adjustments in relation to tax losses and other tax assets that are now expected to reverse sooner, at higher tax rates, than they would under the trust regime. The effect has been an increase to the future income tax asset and corresponding decrease to the future income tax expense.

STOCK-BASED COMPENSATION

Prior to the Conversion, we had two long term incentive plans: the Incentive Plan adopted on March 1, 2003 (the "2003 Plan"); and the Incentive Plan adopted on May 18, 2006 (the "2006 Plan" and together with the 2003 Plan, the "Converted Incentive Plans").

In connection with the Conversion, the Converted Incentive Plans were amended such that the holders of such rights now have the right to receive, upon vesting and the payment of the exercise price related thereto, common shares of Newalta Inc. instead of trust units of the Fund, on a one-for-one basis. No further option based awards will be granted under the Converted Incentive Plans.

On December 31, 2008, Newalta adopted a new long term incentive plan under which Incentive Options may be granted (the "Option Plan" and together with the Converted Incentive Plans, the "Incentive Plans").

Under the Incentive Plans, we may grant options to acquire up to 10% of the issued and outstanding shares to directors, officers, employees and consultants of Newalta or any its affiliates.

The 2003 Plan differs from the 2006 Plan and the Option Plan in the manner in which they may be settled by the grantee. The options under the 2003 Plan may only be settled in common shares, while the options under the 2006 Plan and Option Plan may be settled net in cash by the grantee. As such, options under the 2003 Plan are accounted for in accordance with the fair value recognition provisions of GAAP. Accordingly, stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized as an expense over the vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of the options (including the number of stock-based awards that are expected to be forfeited), the expected volatility of the underlying security and the expected dividends. The options granted under the 2006 Plan and the Option Plan are accounted for as stock appreciation rights since they may be subject to a net cash settlement provision. Accordingly, they are re-measured at each balance sheet date to reflect the net cash liability at that date.

During 2008, a total of 960,000 options were granted under the 2006 Plan. No options were granted under the 2003 Plan and the Option Plan in 2008.

Subsequent to year end, (i) 894,675 options held by certain employees pursuant to the Converted Incentive Plans were surrendered for cancelation and 842,500 options were granted to directors, officers and certain employees of Newalta under the Option Plan, and (ii) 470,000 share appreciation rights were surrendered for cancelation and 791,500 share appreciation rights were granted to certain employees and an officer of Newalta.

ADOPTION OF NEW ACCOUNTING STANDARDS IN 2008

Effective January 1, 2008, Newalta adopted new accounting recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3862, Financial Instruments-Disclosures and section 3863, Financial Instruments-Presentation. The incremental disclosure requirements for Newalta are addressed in Note 20 to the interim consolidated financial statements for the years ended December 31, 2008 and 2007.

Effective January 1, 2008, Newalta adopted CICA handbook section 3031 Inventories, which replaces section 3030. There was no effect on Newalta's inventory balances. However, going forward, the new handbook section provides for the ability to reverse impairment losses previously recognized if the underlying assumption for that impairment has changed.

The CICA issued section 1535, Capital Disclosures, which requires both qualitative and quantitative disclosures to provide users of the financial statements with information to evaluate an entity's objectives, policies and processes for managing capital. Effective January 1, 2008, Newalta adopted this new accounting standard and the related disclosure is found in Note 14.

NEW ACCOUNTING STANDARDS IN 2009 AND ONWARD

The CICA issued the following sections:

- Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the new standards will be adopted for fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. We are currently evaluating the impact of the adoption of this new Section on Newalta's consolidated financial statements. We do not expect that the adoption of this new Section will have a material impact on the consolidated financial statements.

- Section 1582, Business Combinations. This new section will be applicable to business combinations for which the acquisition date is on or after interim and fiscal periods beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Corporation has not yet determined the impact of the adoption of this new section on the consolidated financial statements.

- Section 1601, Consolidated Financial Statements. This new Section will be applicable to financial statements relating to interim and fiscal periods beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. Newalta has not yet determined the impact of the adoption of this new section on the consolidated financial statements.

- Section 1602, Non-Controlling Interests. This new section will be applicable to financial statements relating to interim and fiscal periods beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Newalta has not yet determined the impact of the adoption of this new section on the consolidated financial statements.

2011 CHANGEOVER TO IFRS

On March 11, 2008, the Accounting Standards Board of Canada ("AcSB") confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will become Canadian GAAP for publicly accountable enterprises such as Newalta. At this time, the impact on our future consolidated balance sheets and statements of operations, comprehensive income and retained earnings are not reasonably determinable or estimable.

We have commenced our IFRS project and have established a formal project governance structure with a target implementation date of January 1, 2011. Our structure includes a steering committee consisting of senior management, a project team to manage and implement the change, and individual working groups to focus on specific issues and areas. The steering committee regularly reports to senior executive management, the Audit Committee and Board. We have engaged an external expert advisor to assist with the implementation.

The following table summarizes our key activities, related milestones, and our accomplishments to date.

Key Activity	Milestones	Status
High-level scoping review	Identify critical issues by mid-2008	Complete
Accounting policies: Identification of differences between Canadian GAAP/IFRS: • Accounting policy choices under IFRS • Financial statement impact • Opening balances • Final implementation decisions • Financial policies and procedures	Complete new financial policies and procedures manual addressing IFRS requirements. Key milestones include: • Opening balances estimates – Q3 2009 • Testing phase – Q3/Q4 2009 • SAP parallel run – Q4 2009 • Finalize opening balances – Q4 2009/Q1 2010	Accounting policy choices have been identified and the assessment of the financial statement impact is ongoing.
Detailed policy assessment: Identification of areas that may have a significant impact.	Develop working groups and training to implement changes for significant impact items. Key milestones include: • Develop and implement training programs for working groups – Q1 2009 • Identify and recommend	Working groups have been identified and are involved in the assessment of significant impact items. Training is ongoing.
IT Infrastructure: Identify key changes in the following areas: • IT system changes and upgrades • Systemic process changes for data collection for G/L, disclosures, and consolidation • One-time processes due to IFRS 1	Ensure readiness for parallel processing of 2010 financial results and IFRS-compliant reporting in 2011 – Q4 2009.	Strategy for parallel processing completed. Analysis of issues is ongoing.
Control environment: Internal control over financial reporting: • Accounting policy changes and approval • Changes to certification process	Complete final signoff and review of accounting policy changes by Q4 2010. Update certification process by Q4 2010.	Identifying and documenting key changes in policy. Working groups are assessing the impact and developing the implementation processes to be followed operationally.
Control environment: Disclosure controls and procedures: • MD&A communications package • IFRS adjustments to Canadian GAAP statements (2010) • 2011 financial statement presentation	Publish material changes in policies and known impacts of IFRS throughout 2009 & 2010 MD&A's – starting Q2 – 2009 Publish impact of conversion (with reconciliation to GAAP) on key measures by Q1 2011. Publish disclosure of 2010 comparative information (with reconciliation to GAAP) in the interim and annual financial statements – Q1 2011.	Early assessment ongoing. Key stakeholder communications will begin Q2 – 2009.
Other Issues: Address impacts to operations due to IFRS: • Investor relations • Financial covenants • Compensation packages	Develop investor relations communication plan by Q3 2009 Renegotiation of: • Financial covenants by Q2 2010 • Compensation packages by Q3 2010	Early assessment ongoing.

BUSINESS RISKS

The business of Newalta is subject to certain risks and uncertainties. Prior to making any investment decision regarding Newalta, investors should carefully consider, among other things, the risks described herein (including the risks and uncertainties listed in the first paragraph of this Management's Discussion and Analysis) and the risk factors set forth in the most recently filed Annual Information Form of Newalta which are incorporated by reference herein.

The Annual Information Form is available through the internet on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. Copies of the Annual Information Form may be obtained, on request without charge, from Newalta Corporation at 211 – 11th Avenue S.W., Calgary, Alberta T2R 0C6 or by facsimile at (403) 806-7032.

FINANCIAL AND OTHER INSTRUMENTS

The carrying values of accounts receivable and accounts payable approximate the fair value of these financial instruments due to their short term maturities. Newalta's credit risk from its customers is mitigated by its broad customer base and diverse product lines. In the normal course of operations, Newalta is exposed to movements in U.S. dollar exchange rates relative to the Canadian dollar. Newalta sells and purchases some products in U.S. dollars. Newalta does not utilize hedging instruments but rather chooses to be exposed to current U.S. exchange rates as increases or decreases in exchange rates are not considered to be significant over the period of the outstanding receivables and payables. The floating interest rate profile of Newalta's long-term debt exposes Newalta to interest rate risk. Newalta does not use hedging instruments to mitigate this risk. The carrying value of the long-term debt approximates fair value due to its floating interest rates.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer (collectively the "Certifying Officers") have evaluated the effectiveness of Newalta's disclosure controls and procedures as of December 31, 2008 and have concluded that such disclosure controls and procedures were effective. In addition, the Certifying Officers have evaluated the effectiveness of Newalta's internal control over financial reporting as of December 31, 2008 and have concluded that such internal controls over financial reporting were effective. There have not been any changes in the internal control over financial reporting in Q4 of 2008 that have materially affected, or are reasonably likely to materially affect, Newalta's internal control over financial reporting.

ADDITIONAL INFORMATION

Additional information relating to Newalta, including the Annual Information Form, is available through the internet on the Canadian SEDAR which can be accessed at www.sedar.com. Copies of the Annual Information Form of Newalta may be obtained from Newalta Inc. at 211 – 11th Avenue S.W., Calgary, Alberta T2R 0C6 or by facsimile at (403) 806-7032.

MANAGEMENT REPORT

Management is responsible for the preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles and for the consistency therewith of all other financial and operating data presented in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial and management information.

External auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of three non-management directors, has reviewed these statements with management and the auditors and has reported to the Board of Directors. The board has approved the consolidated financial statements.

MICHAEL A. BORYS
Senior Vice President, Finance and Chief Financial Officer
March 5, 2009

AUDITORS' REPORT

TO THE SHAREHOLDERS OF NEWALTA INC. (FORMERLY NEWALTA INCOME FUND):

We have audited the consolidated balance sheets of Newalta Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive income and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta
March 5, 2009

CONSOLIDATED BALANCE SHEETS

($000s)	**December 31, 2008**	December 31, 2007
Assets		
Current assets		
Accounts receivable	**120,884**	159,749
Inventories (Note 5)	**29,781**	24,122
Prepaid expenses and other	**6,546**	6,129
	157,211	190,000
Note receivable (Note 6)	**1,160**	1,424
Capital assets (Note 7)	**724,788**	661,605
Intangible assets (Note 8)	**64,003**	66,855
Goodwill (Note 4)	**103,597**	103,597
Future tax asset (Note 11)	**1,151**	-
	1,051,910	1,023,481
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**109,698**	107,809
Distributions payable (Note 17)	**7,560**	7,662
	117,258	115,471
Senior long-term debt (Note 9)	**263,251**	206,940
Convertible debentures – debt portion (Note 10)	**109,419**	108,336
Future income taxes (Note 11)	**40,039**	49,840
Asset retirement obligations (Note 12)	**21,094**	20,985
	551,061	501,572
Shareholders' Equity (Notes 10 and 13)		
Shareholders' capital	**509,369**	496,027
Convertible debentures – equity portion	**1,850**	1,850
Contributed surplus	**988**	1,092
Retained earnings (deficit)	**(11,358)**	22,940
	500,849	521,909
	1,051,910	1,023,481

Approved by the Board

Barry D. Stewart
Director

R.H. (Dick) Pinder
Director

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND RETAINED EARNINGS (DEFICIT)

	For the Year Ended	December 31,
($000s except per share/unit data)	**2008**	2007
Revenue	**597,035**	499,864
Expenses		
Operating	**409,073**	348,660
Selling, general and administrative	**62,129**	54,279
Finance charges	**24,104**	13,879
Amortization and accretion	**51,237**	43,284
	546,543	460,102
Earnings before taxes	**50,492**	39,762
Provision for (recovery of) income taxes		
Current	**949**	1,351
Future	**(9,339)**	(22,778)
	(8,390)	(21,427)
Net earnings and comprehensive income	**58,882**	61,189
Retained earnings, beginning of period	**22,940**	51,868
Distributions (Note 17)	**(93,180)**	(90,117)
Retained earnings (deficit), end of period	**(11,358)**	22,940
Net earnings per share/unit (Note 16)	**1.40**	1.52
Diluted earnings per share/unit (Note 16)	**1.40**	1.51

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
($000s)	**2008**	2007
Net inflow (outflow) of cash related to the following activities:		
Operating Activities		
Net earnings	**58,882**	61,189
Items not requiring cash:		
Amortization and accretion	**51,237**	43,284
Future income tax recovery	**(9,339)**	(22,778)
Other	**(4,893)**	(1,725)
Funds from Operations	**95,887**	79,970
Increase (decrease) in non-cash working capital (Note 21)	**35,066**	(24,201)
Asset retirement expenditures incurred	**(2,031)**	(1,711)
	128,922	54,058
Investing Activities		
Additions to capital assets (Note 21)	**(117,472)**	(125,335)
Net proceeds on sale of capital assets (Note 7)	**15,200**	2,120
Acquisitions (Note 4)	**(2,662)**	(82,882)
	(104,934)	(206,097)
Financing Activities		
Issuance of shares/units	**1,913**	77,158
Issuance of convertible debentures	**-**	110,050
Increase in debt	**55,847**	40,668
Settlement of acquired debt (Note 4)	**-**	(784)
Decrease in note receivable	**345**	303
Distributions to unitholders (Note 17)	**(82,093)**	(75,356)
	(23,988)	152,039
Net cash flow	**-**	-
Cash - beginning of period	**-**	-
Cash - end of period	**-**	-
Supplementary information:		
Interest paid	**22,468**	12,260
Income taxes paid	**1,500**	889

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

(all tabular data in $000s except per share and ratio data)

NOTE 1. CORPORATE STRUCTURE AND THE ARRANGEMENT

Newalta Inc. was incorporated on October 29, 2008 pursuant to the laws of the Province of Alberta. Newalta Inc. is engaged, through its wholly owned operating subsidiaries Newalta Corporation (the "Corporation") and Newalta Industrial Services Inc. ("NISI", and together with Newalta Inc. and the Corporation, collectively "Newalta"), in adapting technologies to maximize the value inherent in industrial waste through the recovery of saleable products and recycling. Newalta also provides environmentally sound disposal of solid, non-hazardous industrial waste. With an integrated network of facilities, Newalta provides waste management solutions to a broad customer base of national and international corporations in a range of industries, including automotive, construction, forestry, manufacturing, mining, oil and gas, petrochemical, pulp and paper, refining, steel and transportation service industries.

As a result of changes in tax rules for specified investment flow-though entities, Newalta Income Fund (the "Fund") undertook steps to convert the Fund's income trust structure into a corporate structure (see Note 11). On December 17, 2008, unitholders of Newalta Income Fund voted and approved the reorganization by way of a plan of arrangement under the Business Corporations Act (Alberta), into a corporation pursuant to an arrangement agreement dated November 12, 2008 (as amended) between Newalta Inc., Newalta Income Fund, Newalta Corporation, Newalta Industrial Services Inc. and Newalta Services Holdings Inc. (the "Arrangement").

Pursuant to the Arrangement, the following steps were undertaken:

On December 31, 2008:

- Newalta Inc. assumed all the covenants and obligations of the Fund for the convertible debentures (the "Debentures") in accordance with the terms of the Debenture Indenture. As a result, each Debenture became convertible into shares of Newalta Inc. rather than units of the Fund.
- Each outstanding trust unit of the Fund was transferred to Newalta Inc. in exchange for one common share of Newalta Inc. Accordingly, the terms "shares" and "units" are used interchangeably throughout these financial statements.
- All outstanding incentive rights to acquire trust units of the Fund became incentive options to acquire an equivalent number of common shares of Newalta Inc. on the same terms and conditions.

On January 1, 2009, Newalta Corporation, Newalta Industrial Services Inc. and Newalta Services Holdings Inc. were amalgamated to form Newalta Corporation.

Prior to the Arrangement on December 31, 2008, the consolidated financial statements included the accounts of the Fund and its subsidiaries. After giving effect to the Arrangement, the consolidated financial statements have been prepared on a continuity of interests basis, which recognizes Newalta Inc. as the successor entity to the Fund.

NOTE 2. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Newalta Inc. and its wholly-owned subsidiaries. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

a) Cash and cash equivalents

Cash is defined as cash and short-term deposits with maturities of three months or less, when purchased.

b) Inventory

Inventory is comprised of oil, lead and other recycled products, spare parts and supplies, and is recorded at the lower of cost and net realizable value. Cost of finished goods includes the laid down cost of materials plus the cost of direct labour applied to the product and the applicable share of overhead expense. Cost of other items of inventory comprises the laid down cost.

c) Capital and intangible assets

Capital and intangible assets are stated at cost, less accumulated amortization. The carrying values of capital assets and intangible assets are reviewed at least annually to determine if the value of any asset is impaired. Any amount so determined is written off in the year of impairment. Amortization rates are calculated to amortize the costs, net of salvage value, over the assets' estimated useful lives. Plant and equipment includes buildings, site improvements, tanks and mobile equipment and is principally depreciated at rates of 5-10% of the declining balance or from 5-14 years straight line, depending on the expected life of the asset. Some equipment is depreciated based on utilization rates. The utilization rate is determined by dividing the cost of the asset (net of estimated salvage value) by the estimated future hours of service.

Landfill assets represent the costs of landfill available space, including original acquisition cost, incurred landfill construction and development costs, including gas collection systems installed during the operating life of the site, and capitalized landfill closure and post-closure costs. The cost of landfill assets, together with projected landfill construction and development costs for permitted capacity, is amortized on a per unit basis as landfill space is consumed. Management annually updates landfill capacity estimates, based on survey information provided by independent engineers, and projected landfill construction and development costs. The impact on annual amortization expense of changes in estimated capacity and construction costs is accounted for prospectively. As at December 31, 2008, there was no impairment in the value of the landfill assets.

Intangible assets consist of certain production processes, trademarks, permits and agreements, which are amortized over the period of the contractual benefit of 3-20 years, straight line. Certain permits are deemed to have indefinite lives and therefore are not amortized. There are no costs to renew these permits provided that Newalta remains in good standing with regulatory authorities. As such, management reviews any changes in the regulatory environment that could cause impairment in the value ascribed to these permits. As at December 31, 2008, there was no impairment in the value of these permits.

d) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of acquired businesses. Newalta, at least annually on September 30, assesses goodwill, and its potential impairment, on a reporting unit basis by determining whether the balance of goodwill can be recovered through the estimated discounted operating cash flows of each reporting unit over their remaining lives. Management's determination as at September 30, 2008 and December 31, 2008 was that goodwill was not impaired.

e) Asset retirement obligations

Newalta provides for estimated future asset retirement costs for all of the facilities of the Corporation and NISI based on the useful lives of the assets and the long term commitments of certain sites (20 to 300 years). Over this period, Newalta recognizes the liability for the future retirement obligations associated with property, plant and equipment. These obligations are initially measured at fair value, which is the discounted future value of the liability. This fair value is capitalized as part of the cost of the related asset and amortized to expense over the asset's useful life. The balance of the liability accretes until the date of expected settlement of the retirement obligations. The accretion expense has been included in amortization and accretion expense. Asset retirement costs are estimated by management, in consultation with the Corporation's engineers, on the basis of current regulations, costs, technology and industry standards. Actual asset retirement costs are charged against the provision as incurred.

f) Revenue recognition

The major sources of revenue relate to the processing of waste material and the sale of recycled products recovered from the waste. Revenue is recognized when waste material is received and a liability is assumed for the waste. Revenue on recycled products is recognized when products are delivered to customers or pipelines. For construction projects and well abandonment work, revenue is recognized on a percentage of completion basis.

g) Income taxes

Newalta Inc. and its wholly owned subsidiaries follow the liability method of accounting for income taxes. Future income tax assets and liabilities are measured based upon temporary differences between the carrying values of assets and liabilities and their tax basis. Future income tax expense is computed based on the change during the year in the future income tax assets and liabilities. Effects of changes in tax laws and tax rates are recognized when substantively enacted.

Income tax assets are also recognized for the benefits from tax losses and deductions with no accounting basis, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of estimated realization.

h) Earnings per share/unit

Basic earnings per share/unit is calculated using the weighted average number of shares/units outstanding during the year. Diluted earnings per share/unit is calculated by adding the weighted average number of shares/units outstanding during the year to the additional shares/units that would have been outstanding if potentially dilutive shares/units had been issued, using the "treasury stock" method and the "if converted" method for the Debentures.

i) Incentive Plans

Newalta Inc. has three share-based compensation plans, the 2003 Option Plan (the "2003 Plan"), the 2006 Option Plan (the "2006 Plan") and the 2008 Option Plan (the "2008 Plan"). Under the option plans, Newalta Inc. may grant to directors, officers, employees and consultants of Newalta Inc. or any its affiliates, rights to acquire up to 10% of the issued and outstanding shares. Newalta Inc. uses the fair value method to account for the rights granted pursuant to the 2003 Plan and recognizes the share based compensation expense over the vesting period of the rights, with a corresponding increase to contributed surplus. When rights are exercised, the proceeds, together with the amount recorded in contributed surplus, are transferred to shareholders' capital. Forfeitures are accounted for as incurred.

The 2006 Plan and the 2008 Plan allow for individuals to settle their rights in cash. Accordingly, Newalta Inc. uses the intrinsic value method to account for these rights. The intrinsic value reflects the net cash liability calculated as the difference between the market value of the shares and the exercise price of the right. This is re-measured at each reporting date and stock based compensation expense is increased or decreased accordingly. Decreases or reversals of stock based compensation expense are limited to previously recognized stock based compensation expense.

j) Financial Instruments

Classification

Under Section 3855, all financial instruments are classified into one of five categories and are initially recognized at fair value and subsequently measured as noted in the table below:

Category	Subsequent Measurement
Held-for-trading	Fair value and changes in fair value are recognized in net earnings
Held-to-maturity investments	Amortized cost, using the effective interest method
Loans and receivables	Amortized cost, using the effective interest method
Available-for-sale financial assets	Fair value and changes in fair value are recorded in other comprehensive income until the instrument is derecognized or impaired
Other financial liabilities	Amortized cost

Accounts receivable and note receivable are classified as loans and receivables. Senior long-term debt, Debentures, accounts payable and distributions payable are classified as other financial liabilities. Newalta does not have any derivatives or embedded derivatives.

Convertible Debentures

Newalta presents outstanding Debentures in their debt and equity component parts on the consolidated balance sheets. The debt component represents the total discounted present value of the semi-annual interest obligations to be satisfied by cash and the principal payment due at maturity, using the rate of interest that would have been applicable to a non-convertible debt instrument of comparable term and risk at the date of issue. Typically, this results in an accounting value assigned to the debt component of the convertible debentures which is less than the principal amount due at maturity. The debt component presented on the consolidated balance sheets increases over the term of the relevant debenture to the full face value of the outstanding debentures at maturity. The difference is reflected as increased interest expense with the result that adjusted interest expense reflects the effective yield of the debt component of the Debentures. The equity component of the Debentures is presented under Shareholders' Equity on the consolidated balance sheets. The equity component represents the value ascribed to the conversion right granted to the holder, which remains a fixed amount over the term of the related debentures. Upon conversion of the debentures into shares by the holders, a proportionate amount of both the debt and equity components are transferred to Shareholders' Capital. Accretion and interest expense for the Debentures are reflected as finance charges on the consolidated statements of operations, comprehensive income and retained earnings (deficit).

Transaction Costs

Transaction costs associated with Other Liabilities are netted against the related liability.

k) Measurement uncertainty

The preparation of Newalta's financial statements in a timely manner and in accordance with Canadian generally accepted accounting principles requires the use of estimates, assumptions, and judgment regarding assets, liabilities, revenue and expenses. Such estimates relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as transactions are settled in the future. Amounts recorded for amortization, accretion, future asset retirement obligations, the equity component of Debentures and impairment calculations are based on estimates. By their nature, these estimates are subject to measurement uncertainty, and the impact of the difference between the actual and the estimated costs on the financial statements of future periods could be material.

NOTE 3. ACCOUNTING CHANGES

a) Adopted Changes

The Canadian Institute of Chartered Accountants ("CICA") issued section 3862, Financial Instruments - Disclosures and section 3863, Financial Instruments - Presentation which are required to be adopted for fiscal years beginning on or after October 1, 2007. Newalta adopted these standards effective January 1, 2008 and the related disclosure is found in Note 20 to these consolidated financial statements. This new section provides additional disclosures regarding the significance of financial instruments for the entity's financial position and performance, and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

The CICA issued section 1535, Capital Disclosures, which requires both qualitative and quantitative disclosures to provide users of the financial statements with information to evaluate an entity's objectives, policies and processes for managing capital. Effective January 1, 2008, Newalta adopted this new accounting standard and the related disclosure is found in Note 14.

Effective January 1, 2008, Newalta adopted section 3031, Inventories, which replaces section 3030. This section requires the measurement of inventories at the lower of cost and net realizable value and the consistent use of either first-in, first-out or a weighted average method for determining cost. The reversal of previous net realizable value write-downs is permitted when there is a subsequent increase to the value of inventories. Newalta measures inventory at the lower of cost and net realizable value, and cost is determined using a weighted average cost formula. Application of the new section did not have a significant impact on the consistent financial statements.

b) Future Accounting Changes

In February 2008, the CICA issued section 3064, Goodwill and Intangible Assets, replacing section 3062, Goodwill and Other Intangible Assets and section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, Newalta will adopt the new standards for its fiscal year beginning January 1, 2009. The new standards establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous section 3062. Newalta is currently evaluating the impact of the adoption of this new section on its consolidated financial statements. Newalta does not expect the adoption of this new section to have a material impact on its financial statements.

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian publicly accountable enterprises would be required to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian Generally Accepted Accounting Principles ("GAAP"), but there are differences in recognition, measurement and disclosures. At this time, the impact on Newalta's future consolidated balance sheets and consolidated statements of operations, comprehensive income and retained earnings (deficit) and cash flows is not reasonably determinable or estimable.

Section 1582, Business Combinations. This new section will be applicable to business combinations for which the acquisition date is on or after interim and fiscal periods beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Corporation has not yet determined the impact of the adoption of this new section on the consolidated financial statements.

Section 1601, Consolidated Financial Statements. This new section will be applicable to financial statements relating to interim and fiscal periods beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. Newalta has not yet determined the impact of the adoption of this new section on the consolidated financial statements.

Section 1602, Non-Controlling Interests. This new section will be applicable to financial statements relating to interim and fiscal periods beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Newalta has not yet determined the impact of the adoption of this new section on the consolidated financial statements.

NOTE 4. ACQUISITIONS

a) On December 19, 2008, the Eastern Division acquired a bioremediation facility from Newpark Canada Inc. ("Newpark") for a total purchase price of $0.6 million in cash. The facility, located in Antigonish County, Nova Scotia, delivers bioremediation services for treatment of hydrocarbon contaminated drilling wastes. The fair value of the assets acquired were $0.2 million for building and equipment and $0.4 million for permits recorded as intangible assets.

b) On April 1, 2007, the Western Division acquired all of the assets of Panaco Fluid Filtration Systems Ltd. ("Panaco") for a total purchase price of $6.0 million in cash. Panaco and its 15 people based out of Rocky Mountain House, Alberta, deliver onsite fluid filtration services to refineries and gas plants as well as oil and gas exploration drilling locations. Panaco provides services to western Canada and the United States.

Effective May 1, 2007, the Eastern Division acquired the operating assets of three private entities (collectively referred to as Groupe Envirex ("Envirex")), based out of Québec for a collective purchase price of $8.1 million in cash. This acquisition adds four centrifuges to Eastern servicing the Québec refinery and petrochemical market. The acquired operations include a fleet of eight vacuum trucks and pressure washers and a household waste, small industrial waste generator and soil treatment business.

Effective May 1, 2007, the Eastern Division acquired a portion of the operating assets of EcoloSite Inc. ("EcoloSite"), based in London, Ontario, for a total purchase price of $3.1 million, comprised of $2.4 million in cash and the assumption of $0.7 million in debt. EcoloSite operates one facility with 13 people servicing customers across Ontario and the Maritimes in mobile onsite treatment and the management of industrial and municipal waste.

The assets of Eastern Environmental Services Ltd. ("EES") were acquired by the Eastern Division effective June 1, 2007 for a total purchase price of $9.4 million in cash. The acquired operations include 30 experienced people, a fleet of mobile services, a transfer station and processing facility located in Sussex, New Brunswick and a satellite office in Bedford, Nova Scotia.

The assets of New West Fluid Management Inc. ("New West") were acquired by the Western Division effective July 5, 2007 for a total purchase price of $9.8 million in cash. The acquired operations include a fleet of 15 vacuum trucks, 30 people and 12 technical field consultants that provide site remediation and abandonment services.

The Eastern Division acquired the assets of Bucke Environmental Services & Transportation Inc. ("BEST") effective July 6, 2007 for a total purchase price of $1.4 million, comprised of $1.4 million in cash and the assumption of $47 thousand in debt. The acquired assets include four vacuum trucks and related assets in the Windsor area.

On October 16, 2007, the Eastern Division completed the acquisition of a lead recycling facility business in Ville Ste. Catherine, Quebec ("VSC") for total consideration of $58.8 million comprised of $45.8 million in cash paid at closing, $0.5 million in cash paid in 2008, $2.5 million in working capital adjustments and the balance was funded through the issuance of 510,690 shares which were valued using the average price of Newalta's units for the day of and the two days before and after announcement of the acquisition.

The amount of the consideration paid and the fair value of the assets acquired and liabilities assumed during 2007 were:

	Panaco	Envirex	EcoloSite	EES	New West	BEST	VSC	Total
Cash consideration	5,963	8,090	2,409	9,393	9,806	1,401	45,820	82,882
Debt assumed	-	-	737	-	-	47	-	784
Equity issued	-	-	-	-	-	-	10,000	10,000
Deferred payments	-	-	-	-	-	-	3,000	3,000
Total purchase price	5,963	8,090	3,146	9,393	9,806	1,448	58,820	96,666
Net working capital	294	(52)	-	225	20	-	2,676	3,163
Capital assets:								
Land	45	400	-	202	-	-	1,115	1,762
Plant & equipment	2,305	5,142	2,572	3,986	4,286	1,098	39,354	58,743
Intangibles	500	1,000	10	1,000	1,000	350	16,000	19,860
Goodwill	2,819	1,600	580	4,020	4,500	-	-	13,519
Asset retirement obligations	-	-	(16)	(40)	-	-	(617)	(673)
Future income tax liability	-	-	-	-	-	-	292	292
	5,963	8,090	3,146	9,393	9,806	1,448	58,820	96,666

With the exception of VSC, the operating results of the businesses acquired are consolidated from the respective closing dates of the transactions. Since certain inventory relating to operations prior to November 1, 2007 was sold for the account of Nova Pb after November 1, 2007, we did not begin to see contribution from these operations until December 2007.

NOTE 5. INVENTORIES

Inventories consist of the following:

	2008	2007
Lead	**15,989**	7,322
Recycled and processed products	**4,969**	4,598
Recovered oil	**2,508**	3,366
Parts and supplies	**4,797**	7,080
Burner fuel	**1,518**	1,756
Total inventory	**29,781**	24,122

The cost of inventory expensed in operating expenses for the year ended December 31, 2008 was $62.4 million ($28.3 million for the same period in 2007).

NOTE 6. NOTE RECEIVABLE

Included in an acquisition in 2005 were certain capital costs relating to landfill construction that are recoverable from a third party based on usage of the landfill. These unsecured amounts are shown as a note receivable.

NOTE 7. CAPITAL ASSETS

a) Capital assets consist of the following:

			2008			2007
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	**14,455**	**-**	**14,455**	14,513	-	14,513
Plant and equipment	**814,976**	**(176,200)**	**638,776**	718,390	(144,546)	573,844
Landfill	**102,395**	**(30,838)**	**71,557**	94,721	(21,473)	73,248
Total	**931,826**	**(207,038)**	**724,788**	827,624	(166,019)	661,605

b) Disposal of capital assets

During the year ended December 31, 2008, Newalta disposed of certain transport vehicles, land and buildings with a net book value of $7.8 million for proceeds of $9.0 million. The resulting net gain of $1.2 million is included in amortization and accretion in the consolidated statements of operations, comprehensive income and retained earnings (deficit).

On September 11, 2008, the Western Division disposed of its non-core bin business, which provides onsite collection and transportation of waste services to the upstream and midstream oil and gas industry for proceeds of $6.2 million in cash. The resulting $1.5 million gain on disposition is included in amortization and accretion in the consolidated statements of operations, comprehensive income and retained earnings (deficit).

c) Asset impairment

Management performs impairment testing on its property, plant and equipment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset, or group of

assets, may not be recoverable. During the year, management identified transport vehicles and equipment for which carrying value exceeded fair value. Fair value for these assets was determined based on management's review of equipment utilization and prices for similar assets. The total impairment of $2.5 million ($0.9 million in the Western segment and $1.6 million in the Eastern segment) is included with amortization and accretion in the consolidated statements of operations, comprehensive income and retained earnings (deficit).

NOTE 8. INTANGIBLE ASSETS

		2008			2007	
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Non-competition contracts	**9,070**	**(7,009)**	**2,061**	9,070	(4,583)	4,487
Expiring permits/rights	**11,602**	**(2,697)**	**8,905**	11,602	(1,881)	9,721
Indefinite permits	**53,037**	**-**	**53,037**	52,647	-	52,647
Total	**73,709**	**(9,706)**	**64,003**	73,319	(6,464)	66,855

NOTE 9. SENIOR LONG-TERM DEBT

On October 12, 2008 Newalta extended the maturity of its $425.0 million extendible revolving credit facility (the "Credit Facility") to October 12, 2010. The Credit Facility is available to fund growth capital expenditures and for general corporate purposes as well as to provide letters of credit to third parties for financial security up to a maximum amount of $60.0 million. The aggregate dollar amount of outstanding letters of credit is not categorized in the financial statements as long term debt; however, the issued letters of credit reduce the amount available under the Credit Facility. Interest on the facilities is subject to certain conditions and may be charged at a prime, U.S. base rate, Bankers' Acceptance ("BA") or LIBOR, at the option of the Corporation. The Credit Facility bears interest at a base rate plus an increment (depending on certain criteria) as follows:

Base Rate Type	Range of increment
Prime Rate	0.35% to 1.75%
U.S. Base Rate	0.35% to 1.75%
BA Rate	1.5% to 2.75%
LIBOR	1.5% to 2.75%

The incremental interest rate as at December 31, 2008 was 2.25%.

The Credit Facility is secured by a fixed and floating charge debenture to the lenders on the assets of the Corporation and material subsidiaries, an unlimited subsidiary guarantee from each material subsidiary of the Corporation, a limited recourse guarantee from Newalta Inc. and an assignment of insurance naming the lenders as first loss payee in relation to business interruption, property and inventory insurance.

An extension of the Credit Facility may be granted at the option of the lenders. If an extension is not granted, the entire amount of the outstanding indebtedness would be due in full on October 12, 2010. The facility also requires Newalta to be in compliance with certain covenants. At December 31, 2008, Newalta was in compliance with all covenants.

	December 31, 2008	December 31, 2007
Amount drawn on credit facility	**264,687**	207,417
Issue costs	**(1,436)**	(477)
Senior long-term debt	**263,251**	206,940

NOTE 10. CONVERTIBLE DEBENTURES

In November 2007, the Fund issued $115.0 million of convertible unsecured subordinated debentures (the "Debentures"). The Debentures have a maturity date of November 30, 2012 and bear interest at a rate of 7.0% payable semi-annually in arrears on May 31 and November 30 each year beginning May 31, 2008. Each $1,000 debenture is convertible into 43.4783 shares (or a conversion price of $23.00 per share) at any time at the option of the holders of the Debentures. The net proceeds of the offering were used to repay outstanding indebtedness of the Corporation incurred to fund acquisitions and growth capital. As subordinated debt, the issuance of the Debentures does not affect the borrowing capacity on the Credit Facility. On the consolidated balance sheets, the Debentures are presented net of the costs to issue. The equity portion of the Debentures will be reclassified into Shareholders' Capital as the Debentures are converted into shares.

The Debentures are redeemable by Newalta Inc. after November 30, 2010 and on or before November 30, 2011 if the current market price of the shares on the notice date is greater than $28.75 and may be redeemed after November 30, 2011 for a redemption price of $1,000 per debenture with 30-60 days notice. The obligation may be settled in cash or shares at the discretion of Newalta Inc.

The following table compares the face and fair values of the Debentures to the carrying value. The fair value of the Debentures was determined by reference to the trading price on December 31, 2008. The effective interest rate is 8.44%.

	Face value	Fair value	Equity portion	Carrying value Debt portion
7% Debentures due 2012	115,000	88,550	1,850	109,419

NOTE 11. INCOME TAX

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of Newalta Inc.'s future income tax liabilities and assets are as follows:

Canadian Tax Jurisdiction:	**2008**	2007
Future income tax liabilities:		
Capital assets	**83,006**	71,604
Intangible assets	**12,552**	13,757
Deferred costs	**40**	202
	95,598	85,563
Future income tax assets:		
Non-capital loss carry forwards	**41,778**	20,729
Goodwill	**7,839**	8,573
Asset retirement obligation	**5,548**	5,754
Equity issuance costs	**394**	667
	55,559	35,723
Net future income tax liability	**40,039**	49,840

U.S. Tax Jurisdiction:	**2008**	2007
Future income tax assets:		
Non-capital loss carry forwards	**1,151**	-
Net future income tax asset from US operations	**1,151**	-

The non-capital loss carry forwards relating to Canadian operations will expire beginning in 2027 and in 2026 for those relating to U.S. operations.

Immediately prior to giving effect to the Arrangement, on December 31, 2008, the Fund itself was not subject to income tax provided it distributed all of its taxable income to unitholders. Therefore no future income taxes were recorded. For taxation purposes the Fund was considered a specified investment flow-through ("SIFT") entity and was to become subject to tax commencing January 1, 2011. For accounting purposes, the Fund computed future income tax based on temporary differences that were expected to reverse after 2010, at the tax rate expected to apply for those periods. Realization of future income tax assets is dependent on generating sufficient taxable income during the period in which the temporary differences are deductible. Although realization is not assured, management believes it is more likely than not that all future income tax assets will be realized based on reversals of temporary timing differences, projections of operating results and tax planning strategies available to Newalta and its subsidiaries. Effective December 31, 2008, after giving effect to the Arrangement, Newalta Inc. became subject to tax on taxable income earned from that date forward.

The income tax expense differs from the amount computed by applying Canadian statutory rates to operating income for the following reasons:

	2008	2007
Consolidated earnings of Newalta Inc. before taxes and distributions to shareholders	**50,492**	39,762
Current statutory income tax rate	**31.2%**	33.6%
Computed tax expense at statutory rate	**15,754**	13,360
Increase (decrease) in taxes resulting from:		
Reduction resulting from distributions to unitholders	**(28,948)**	(25,729)
Capital taxes	**951**	1,126
Non-deductible costs	**158**	1,099
Foreign tax losses and tax credits paid	**1,613**	-
Acceleration of tax loss utilization	**1,500**	-
Other	**582**	(944)
Effect of substantively enacted tax rate change	**-**	(10,339)
Reported income tax expense	**(8,390)**	(21,427)

NOTE 12. RECONCILIATION OF ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligations were estimated by management based on the anticipated costs to abandon and reclaim facilities and wells, and the projected timing of these expenditures. The net present value of this amount, $21.1 million ($21.0 million at December 31, 2007) has been accrued on the consolidated balance sheets at December 31, 2008. The total estimated future cost for asset retirement obligations at December 31, 2008 was $9,769.5 million. The majority of the undiscounted future asset retirement obligations relate to the Stoney Creek landfill in Ontario, which are expected to be incurred over the next 300 years. Excluding the landfill, the total future cost is$36.3 million. Newalta uses a discount rate of 8% and an inflation rate of 2% to calculate the present value of the asset retirement obligations.

	2008	2007
Asset retirement obligations, beginning of period	**20,985**	18,484
Additional retirement obligations added through acquisitions	**-**	673
Additional retirement obligations added through development activities	**289**	664
Additional retirement obligations added through a change of estimate	**-**	1,182
Expenditures incurred to fulfill obligations	**(2,031)**	(1,711)
Accretion	**1,851**	1,693
Asset retirement obligations, end of year	**21,094**	20,985

NOTE 13. SHAREHOLDERS' CAPITAL

a) Unitholders' capital

Authorized capital of the Fund consists of a single class of an unlimited number of trust units. The following table is a summary of the changes in Unitholders' capital during the period:

(000s)	Units (#)	Amount ($)
Units outstanding as at December 31, 2006	36,942	394,601
Units issued	3,000	73,936
Units issued as consideration for Nova Pb assets	511	10,000
Contributed surplus on rights exercised	-	335
Rights exercised	289	3,222
Units issued under the DRIP[1]	675	13,933
Units outstanding as at December 31, 2007	41,417	496,027
Contributed surplus on rights exercised	-	241
Rights exercised	209	1,913
Units issued under the DRIP	774	11,188
Units cancelled under the Arrangement	(42,400)	(509,369)
Units outstanding as at December 31, 2008	**-**	**-**

(1) Distribution Reinvestment Plan of the Fund

b) Shareholders' capital

Authorized capital of Newalta Inc. consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. The following table is a summary of the changes in Shareholders' capital during the period:

(000s)	Shares (#)	Amount ($)
Shares outstanding as at October 29, 2008	-	-
Shares issued pursuant to the Arrangement	42,400	509,369
Shares outstanding as at December 31, 2008	**42,400**	**509,369**

c) Retained earnings (deficit) and contributed surplus

The following table provides a breakdown of the components of retained earnings (deficit):

	2008	2007
Accumulated earnings	**360,081**	301,199
Accumulated cash distributions	**(371,439)**	(278,259)
Retained earnings (deficit)	**(11,358)**	22,940

The following tables provide a summary of the changes to contributed surplus during the period:

	Amount ($)
Contributed surplus as at December 31, 2006	1,226
Stock based compensation expense	201
Amounts transferred to equity on exercise of rights	(335)
Contributed surplus as at December 31, 2007	1,092
Stock based compensation expense	137
Amounts transferred to equity on exercise of rights	(241)
Contributed surplus as at December 31, 2008	**988**

d) Convertible debentures – equity portion

The equity portion of the Debentures was recorded on the initial recognition of the Debentures issued in November 2007. The equity portion will be reclassified to Shareholder's capital on a pro-rata basis as the Debentures are exercised.

NOTE 14. CAPITAL DISCLOSURES

Newalta's capital structure currently consists of:

	2008	2007
Senior long term debt pursuant to the Credit Facility	**263,251**	206,940
Letters of Credit or bonds issued as financial security to third parties	**64,457**	51,640
Convertible debentures, debt portion	**109,419**	108,336
Shareholders' equity	**500,849**	521,909
	937,976	888,825

The objectives in managing the capital structure are to:

- Utilize an appropriate amount of leverage to maximize return on Shareholders' equity, and
- To provide for borrowing capacity and financial flexibility to support Newalta's operations.

Management and the Board of Directors review and assess Newalta's capital structure and dividend/ distribution policy at least at each regularly scheduled board meeting which are held at a minimum four times annually. The financial strategy may be adjusted based on the current outlook of the underlying business, the capital requirements to fund growth initiatives and the state of the debt and equity capital markets. In order to maintain or adjust the capital structure, Newalta may:

- Issue shares from treasury
- Issue new debt securities
- Cause the return of letters of credit with no additional financial security requirements
- Replace outstanding letters of credit with bonds or other types of financial security
- Amend, revise, renew or extend the terms of its then existing long-term debt facilities
- Enter into new agreements establishing new credit facilities
- Adjust the amount of dividends paid to shareholders and/or
- Sell idle, redundant or non-core assets.

Management monitors the capital structure based on measures required pursuant to the Credit Facility agreement which restricts Newalta from declaring dividends and distributing cash if the Corporation is in breach of a covenant under the Credit Facility. These measures include:

Ratio	**December 31, 2008**	December 31, 2007	Threshold
Current(1)	**1.34:1**	1.65:1	1.20:1 minimum
Funded Debt(2) to EBITDA(3)	**2.46:1**	1.89:1	3.00:1 maximum
Fixed Charge Coverage(4)	**1.19:1**	1.07:1	1.00:1 minimum

(1) Current Ratio means, the ratio of consolidated current assets to consolidated net current liabilities (excluding the current portion of long-term debt and capital leases outstanding, if any).

(2) Funded debt is a non-GAAP measure, the closest measure of which is long term debt. Funded debt is calculated by adding the senior long term debt to the amount of letters of credit outstanding at the reporting date.

(3) Funded Debt to EBITDA means the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing twelve-months. Funded Debt is defined as long-term debt and capital leases including any current portion thereof but excluding future income taxes and future site restoration costs. EBITDA is defined as the trailing twelve-months of EBITDA for the Fund which is normalized for any acquisitions completed during that time frame and excluding any dispositions incurred as if they had occurred at the beginning of the trailing twelve-months.

(4) Fixed Charge Coverage Ratio means, based on the trailing 12-month EBITDA less unfinanced capital expenditures and cash taxes to the sum of the aggregate of principal payments (including amounts under capital leases, if any), interest (excluding accretion for the Debentures), dividends paid for such period, other than cash payments in respect of a dividend reinvestment plan, if any. Unlike the Funded Debt to EBITDA ratio, the Fixed Charge Coverage ratio trailing twelve month EBITDA is not normalized for acquisitions.

NOTE 15. LONG-TERM INCENTIVE PLANS

a) The 2006 Option Plan

On March 14, 2008 a total of 630,000 options were granted to certain directors, officers and employees of the Corporation. The options were granted at the market price of $16.65 per share/unit. A further 147,500 options were granted at an exercise price of $25.19 per share/unit. On May 15, 2008, an additional 7,500 options were granted to an employee at an exercise price of $25.50. On July 14, 2008, 75,000 options were granted to an officer of the Corporation at the market price of $18.03 per unit. On October 1, 2008, a total of 100,000 options were granted to certain employees of the Corporation at the market price of $14.00 per share/unit. Each tranche of the options vest over a four year period (with a five year life), and the holder of the option can exercise the option for either a share of Newalta Inc. or an amount of cash equal to the difference between the exercise price and the market price at the time of exercise. The options granted under the 2006 Plan have therefore been accounted for as stock appreciation options and the total compensation expense for these options was nil for the year ended December 31, 2008 (nil in 2007). Subsequent to year end, 894,675 options held by certain employees of the Corporation under the 2003 Plan and 2006 Plan were cancelled.

b) The 2008 Option Plan

No options were granted under the 2008 Option Plan, which was established December 31, 2008. Subsequent to year end, 842,500 options were granted to directors, officers and certain employees of the Corporation under the 2008 Plan at the market price of $5.31.

	2006 Options (000s)	Weighted Average Exercise ($/share)	2003 Options (000s)	Weighted Average Exercise ($/share)
At December 31, 2006	665	32.35	1,216	17.69
Granted	1,075	24.88	-	-
Exercised	-	-	(289)	11.16
Forfeited	(300)	28.97	(104)	23.24
At December 31, 2007	1,440	27.47	823	19.29
Granted	960	17.86	-	-
Exercised	-	-	(209)	9.31
Forfeited	(117)	27.84	(4)	25.95
At December 31, 2008	**2,283**	**23.41**	**610**	**22.65**
Exercisable at Dec. 31, 2008	**446**	**28.71**	**360**	**21.79**

Range of Exercise Prices ($/share)	Options Outstanding December 31, 2008 (000s)	Weighted Average Remaining Life (years)	Weighted Average Excercise Price ($/share)	Options Excercisable December 31, 2008 (000s)	Weighted Average Excercise Price ($/share)
9.08 - 9.30	20	1.3	9.27	20	9.27
14.00 - 19.46	1,040	4.1	16.91	123	18.18
22.75 - 32.38	1,833	3.3	27.00	663	27.50
	2,893	3.5	23.25	806	25.61

c) Share Appreciation Rights

On March 14, 2008, 125,000 share appreciation rights were granted to an officer of the Corporation at the market price of $16.65. These rights vest in three equal tranches over 33 months. In addition, 372,500 share appreciation rights were granted to certain employees of the Corporation at the market price of $16.65. On October 1, 2008, a further 127,500 rights were granted to certain employees of the Corporation at the market price of $14.00. Each tranche of these rights vests over a four year period with a five year life. The holder of the right has the option to exercise the right for an amount of cash equal to the difference between the exercise price and the market price at the time of exercise. The rights granted have been accounted for as stock appreciation rights. Total compensation expense for these rights was nil for the year ended December 31, 2008 (nil in 2007). Subsequent to year end, 470,000 share appreciation rights were cancelled and 791,500 share appreciation rights were granted to certain employees and an officer of the Corporation at the market price of $5.31.

NOTE 16. EARNINGS PER SHARE/UNIT

Basic earnings per share/unit calculations for the years ended December 31, 2008 and 2007 were based on the weighted average number of shares/units outstanding for the periods. Diluted earnings per share/unit include the potential dilution of the outstanding options to acquire shares and from the conversion of the Debentures.

The calculation of dilutive earnings per share does not include anti-dilutive options. These options would not be exercised during the period because their exercise price is higher than the average market price for the period. The inclusion of these options would cause the diluted earnings per share to be overstated. The number of excluded options for 2008 was 2,772,500 (1,794,500 in 2007).

The dilutive earnings per share calculation does not include the impact of anti-dilutive Debentures. These debentures would not be converted to shares during the period because the current period interest (net of tax) per share obtainable on conversion exceeds basic earnings per share. The inclusion of the Debentures would cause the diluted earnings per share to be overstated. The number of shares issuable on conversion of the Debentures excluded for 2008 was 5,000,000 (5,000,000 in 2007).

(000s)	Year ended December 31,	
	2008	2007
Weighted average number of shares/units	**41,935**	40,342
Net additional shares if rights exercised	**-**	-
Net additional shares if debentures converted	**-**	131
Diluted weighted average number of shares/units	**41,935**	40,473

NOTE 17. UNITHOLDER DISTRIBUTIONS DECLARED AND PAID

Prior to the Arrangement, the Fund made monthly distributions to its holders of trust units. Determination of the amount of cash distributions for any period was at the sole discretion of the Board of Trustees of the Fund and was based on certain criteria including financial performance as well as the projected liquidity and capital resource position of the Fund. Distributions were declared to holders of trust units of record on the last business day of each month, and paid on the 15th day of the month following (or if such day was not a business day, the next following business day).

	Year ended December 31,	
	2008	2007
Unitholder distributions declared	**93,180**	90,117
per unit $	**2.220**	2.220
Unitholder distributions – paid in cash	**82,093**	75,356
Unitholder distributions – value paid in units	**10,914**	13,933
paid in cash – per unit $	**1.958**	1.868
issued units – per unit $	**0.260**	0.345

NOTE 18. TRANSACTIONS WITH RELATED PARTIES

Bennett Jones LLP provides legal services to Newalta. Mr. Vance Milligan, a Director of Newalta is counsel to the law firm of Bennett Jones LLP. The total cost of these legal services during the year ended December 31, 2008 was $0.8 million (2007 - $0.8 million).

The Corporation provides oilfield services to Paramount Resources Ltd., an oil and gas company. Mr. Clayton Riddell, a Director of Newalta Inc. is the Chairman and Chief Executive Officer of Paramount Resources Ltd. The total revenue for services provided by Newalta to this entity for the year ended December 31, 2008 was $1.2 million (2007 - $1.5 million).

These transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 19. COMMITMENTS

a) Debt and Lease Commitments

Newalta has annual commitments for senior long term debt, Debentures, leased property and equipment and short term amounts payable as follows:

	2009	2010	2011	2012	2013	Thereafter	Total
Senior long term debt(1) (note 9)	-	264,687	-	-	-	-	264,687
Convertible debentures (note 10)	8,015	8,050	8,050	122,379	-	-	146,494
Total debt commitments	8,015	272,737	8,050	122,379	-	-	411,181
Office leases	7,618	7,008	6,524	6,384	6,527	38,228	72,289
Operating leases	8,702	7,128	5,452	3,182	1,142	-	25,606
Surface leases	1,056	1,077	1,097	1,118	252	252	4,852
Accounts payable and accrued liabilities	109,698	-	-	-	-	-	109,698
Distributions payable	7,834	-	-	-	-	-	7,834
Total debt and other commitments	142,923	287,950	21,123	133,063	7,921	38,480	631,460

(1) Gross of transaction costs. Interest payments are not reflected.

b) Letters of Credit and Surety bonds

As at December 31, 2008, Newalta had issued letters of credit and surety bonds in respect of compliance with environmental licenses in the amount of $49.2 million and $15.2 million respectively.

NOTE 20. FINANCIAL INSTRUMENTS

Fair Values

Newalta's financial instruments include accounts receivable, note receivable, accounts payable and accrued liabilities, distributions payable, senior long-term debt and Debentures. The fair values of Newalta's financial instruments that are included in the consolidated balance sheet, with the exception of the Debentures, approximate their recorded amount due to the short term nature of those instruments for accounts receivable, accounts payable and accrued liabilities and for senior long-term debt and the note receivable due to the floating nature of the interest rate. The fair values incorporate an assessment of credit risk. The carrying values of Newalta's financial instruments at December 31, 2008 are as follows:

	Held for trading	Loans and Receivables	Available for sale	Other Liabilities	Total Carrying Value
Accounts receivable	-	120,884	-	-	120,884
Note receivable	-	1,160	-	-	1,160
Accounts payable and accrued liabilities	-	-	-	109,698	109,698
Distributions payable	-	-	-	7,560	7,560
Senior long-term debt(1)	-	-	-	263,251	263,251

(1) Net of related costs.

The fair value of the Debentures is based on the closing trading price on the Toronto Stock Exchange as follows:

		December 31, 2008
	Carrying value(1)	Quoted fair value
7% Convertible debentures due November 30, 2012	111,269	88,550

(1) Includes both the debt and equity portions.

Financial Instrument Risk Management

Credit risk

Newalta is subject to risk from its trade accounts receivable balances. The customer base is large and diverse and no single customer balance exceeds 4% of total accounts receivable. Newalta views the credit risks on these amounts as normal for the industry. Credit risk is minimized by Newalta's broad customer base and diverse product lines and is mitigated by the ongoing assessment of the credit worthiness of its customers as well as monitoring the amount and age of balances outstanding.

Based on the nature of its operations, established collection history, and industry norms, receivables are not considered past due until 90 days after invoice date although standard payment terms require payment within 30 to 120 days. Depending on the nature of the service and/or product, customers may be provided with extended payment terms while Newalta gathers certain processing or disposal data. Included in the Corporation's trade receivable balance, are receivables totalling $6.5 million which are considered to be outstanding beyond normal repayment terms at December 31, 2008. A provision of $1.5 million has been established as an allowance against doubtful accounts. No provision has been made for the remaining balance as there has not been a significant change in credit quality and the amounts are still considered collectable. Newalta does not hold any collateral over these balances.

Aging	Trade Receivables aged by invoice date		Allowance for doubtful accounts		Net Receivables	
	December 31,		December 31,		December 31,	
	2008	2007	2008	2007	2008	2007
Current	58,049	63,680	9	-	58,040	63,680
31-60 days	28,953	29,860	7	-	28,946	29,860
61-90 days	6,608	10,338	52	16	6,556	10,322
91 days +	6,503	22,511	1,465	2,247	5,038	20,264
Total	100,113	126,389	1,533	2,263	98,580	124,126

To determine the recoverability of a trade receivable, management analyzes accounts receivable, first identifying customer groups that represent minimal risk (large oil and gas and other low risk large companies, governments and municipalities). Impairment of the remaining accounts is determined by identifying specific accounts that are at risk, and then by applying a formula based on aging to the remaining amounts receivable. All amounts identified as impaired are provided for in an allowance for doubtful accounts. The changes in this account for 2008 are as follows:

Allowance for doubtful accounts	2008	2007
Balance, beginning of year	2,263	1,295
Additional amounts provided for	1,502	1,320
Amounts written off as uncollectible	(2,294)	(357)
Amounts recovered during the period	62	5
Balance, end of year	1,533	2,263

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors of Newalta Inc., which has built an appropriate liquidity risk management framework for the management of the Corporations's short, medium and long-term funding and liquidity management requirements. Management mitigates liquidity risk by maintaining adequate reserves, banking facilities and other borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Newalta is exposed to interest rate risk to the extent that its credit facility has a variable interest rate. Management does not enter into any derivative contracts to manage the exposure to variable interest rates. The Debentures have a fixed interest rate until November 30, 2012, at which point, any remaining Debentures will need to be repaid or refinanced. The table below provides an interest rate sensitivity analysis for the year ended December 31, 2008:

	Year Ended December 31, 2008
	Net earnings
If interest rates increased by 1% with all other variables held constant	(1,834)

Market risk

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. Newalta is exposed to foreign exchange market risk..

Foreign exchange risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency exchange rates. The risk arises primarily from firm commitments for receipts and payments settled in U.S. dollars. Management does not enter into any financial instruments to manage the risk for the foreign currency exposure. The table below provides a foreign currency sensitivity analysis on accounts receivable and accounts payable outstanding as at December 31, 2008:

	Net earnings
If the value of the U.S. dollar increased by $0.01 with all other variables held constant	(176)

NOTE 21. CASH FLOW STATEMENT INFORMATION

The following tables provide supplemental information.

Change in non-cash operating net assets	2008	2007
Changes in current assets	**32,789**	(56,412)
Changes in current liabilities	**1,787**	17,987
Distributions payable	**102**	(828)
Other	**4,882**	498
Working capital acquired	**-**	3,163
Changes in capital asset accruals	**(4,494)**	11,391
Decrease (increase) in non-cash working capital	**35,066**	(24,201)

Net additions to capital assets	2008	2007
Cash additions to capital assets	**(121,966)**	(136,726)
Changes in capital asset accruals	**4,494**	11,391
Additions to capital assets	**(117,472)**	(125,335)

NOTE 22. SEGMENTED INFORMATION

Newalta has two reportable segments. The reportable segments are distinct strategic business units whose operating results are regularly reviewed by the Corporation's executive officers in order to assess financial performance and make resource allocation decisions. The reportable segments have separate operating management and operate in distinct competitive and regulatory environments. The Western segment recovers and resells crude oil from oilfield waste, rents drill cuttings management and solids control equipment, provides environmental services comprised of environmental projects and drilling waste management, collects liquid and semi-solid industrial wastes as well as automotive wastes, including waste lubricating oil, and provides mobile site services in western Canada. Recovered materials are processed into resalable products. The Eastern segment provides industrial waste collection, pre-treating, transfer, processing and disposal services and operates a fleet of specialized vehicles and equipment for waste transport and onsite processing, a lead recycling facility and an emergency response service in central and eastern Canada. The accounting policies of the segments are the same as those of Newalta.

For the year ended December 31, 2008	Western	Eastern	Inter-segment	Unallocated[3]	Consolidated Total
External revenue	**356,146**	**240,809**	**-**	**80**	**597,035**
Inter segment revenue[1]	**919**	**-**	**(919)**	**-**	**-**
Operating expense	**229,423**	**180,569**	**(919)**	**-**	**409,073**
Amortization and accretion expense	**21,614**	**18,718**	**-**	**10,905**	**51,237**
Net margin	**106,028**	**41,522**	**-**	**(10,825)**	**136,725**
Selling, general and administrative	**-**	**-**	**-**	**62,129**	**62,129**
Finance charges	**-**	**-**	**-**	**24,104**	**24,104**
Earnings before taxes	**106,028**	**41,522**	**-**	**(97,058)**	**50,492**
Capital expenditures and acquisitions[2]	**63,799**	**44,967**	**-**	**16,436**	**125,202**
Goodwill	**62,280**	**41,317**	**-**	**-**	**103,597**
Total assets	**552,132**	**425,233**	**-**	**74,545**	**1,051,910**

For the year ended December 31, 2007	Western	Eastern	Inter-segment	Unallocated[3]	Consolidated Total
External revenue	348,424	150,743	-	697	499,864
Inter segment revenue[1]	652	-	(652)	-	-
Operating expense	234,896	114,416	(652)	-	348,660
Amortization and accretion expense	20,852	14,160	-	8,272	43,284
Net margin	93,328	22,167	-	(7,575)	107,920
Selling, general and administrative	-	-	-	54,279	54,279
Finance charges	-	-	-	13,879	13,879
Earnings before taxes	93,328	22,167	-	(75,733)	39,762
Capital expenditures and acquisitions[2]	57,653	117,865	-	34,764	210,282
Goodwill	62,280	41,317	-	-	103,597
Total assets	566,133	380,712	-	76,636	1,023,481

(1) Inter-segment revenue is recorded at market, less the costs of serving external customers.

(2) Includes capital asset additions and the purchase price of acquisitions.

(3) Management does not allocate selling, general and administrative, taxes, and interest costs in the segment analysis.

Corporate Information

DIRECTORS

Alan P. Cadotte

Robert M. MacDonald[1, 3]

R. Vance Milligan, Q.C.[3, 4]

Felix Pardo[1, 4]

R.H. (Dick) Pinder[1, 2]

Gordon E. Pridham[2, 3]

Clayton H. Riddell

Ronald L. Sifton

Barry D. Stewart[2, 4, 5]

OFFICERS

Alan P. Cadotte
President and Chief Executive Officer

Peter A. Dugandzic
Executive Vice President

Ronald L. Sifton
Executive Vice President

J. Craig Wilkie
Executive Vice President

Michael A. Borys
Senior Vice President, Finance
and Chief Financial Officer

Terry P. Donaleshen
Vice President, People, Environment and Safety

Jim McClimans
Vice President, Finance

Doug Pecharsky
Vice President, Western Division

Harry Wells
Vice President, Innovation and Technology

Took Whiteley[6]
Vice President and General Counsel

1. Audit Committee
2. Compensation Committee
3. Corporate Governance and Nominating Committee
4. Environment, Health and Safety Committee
5. Chairman of the Board
6. Corporate Secretary

INVESTOR RELATIONS

Anne M. MacMicken
Executive Director, Investor Relations
Tel: 403.806.7019
Fax: 403.806.7031
amacmicken@newalta.com

STOCK EXCHANGE

Toronto Stock Exchange

Symbol: NAL / NAL.DB

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

LEGAL COUNSEL

Bennett Jones LLP
Calgary, Alberta

BANKERS

Canadian Imperial Bank of Commerce

Bank of Montreal

Royal Bank of Canada

The Bank of Nova Scotia

The Toronto Dominion Bank

Alberta Treasury Branches

National Bank of Canada

TRANSFER AGENT AND REGISTRAR

Valiant Trust Company
Calgary, Alberta

NOTICE OF ANNUAL AND SPECIAL MEETING

Wednesday, May 13, 2009 at 2:00 pm (MT)
Newalta's corporate office
220 – 12th Avenue SW, Calgary, Alberta

www.newalta.com

NEWALTA

211 - 11th Avenue S.W.
Calgary, AB T2R 0C6
Phone: 403.806.7000
Toll Free: 800.774.8466
Fax: 403.806.7032
www.newalta.com